

## I. Policy Update

### 1. MOF, MOA and CBRC issued the *Guiding Opinions on Leveraging Public Finance to Support the Establishment of Agricultural Credit Guarantee System*

On August 3, the Ministry of Finance (MOF), the Ministry of Agriculture (MOA) and the State Banking Regulatory Commission (CBRC) issued the *Guiding Opinions on Leveraging Public Finance to Support the Establishment of Agricultural Credit Guarantee System*. According to the Opinions, a nationwide agricultural credit guarantee system with Chinese characteristics is expected to be established in 3 years. In the process of setting up such guarantee agencies, efforts should be put on ensuring their independence, specialty and policy nature, reducing the risks and costs associated with agricultural credit, and building up a professional team. Moreover, it is required that such agencies should play a key role in the market, put into place sound internal control and performance evaluation systems, and conduct rigorous operational risk monitoring.

### 2. MOF issued the circular on the

### fees charged by the human resource and social security departments

On August 3, MOF issued the circular on the fees charged by the human resource and social security departments. (1) On the occupational skills assessment, the assessment centers affiliated with local human resource and social security departments will charge fees from assessment takers, and the assessment centers of the Ministry of Human Resource and Social Security (MOHRSS) will then collect services fees from the local centers. (2) On the professional qualification test, the test centers of MOHRSS will collect service fees from local test centers which will then charge test fees from test takers. (3) The fee-charging agencies, depending on their affiliation, shall use invoices printed by either MOF or provincial finance authorities. (4) The income derived from the fee-charging activities of MOHRSS's assessment centers and test centers shall be handed in full to the central government treasury and be incorporated into the central budget.

### 3. MOF issued the *Opinions on Supporting Diverse Forms of Moderate-scale Operation to Promote the Transformation of Agricultural Development Patterns*

On August 3, MOF issued the *Opinions on Supporting Diverse Forms of Moderate-scale*

*Operation to Promote the Transformation of Agricultural Development Patterns.* (1) Adjusting and improving the agricultural subsidy policies, highlighting the priority areas of spending, and tilting policies towards moderate-scale operation. (2) Tailoring programs to boost the development of family farms, major producers and farmers' cooperatives and to raise the capacity of new operators for scale farming. (3) Supporting the innovation of models and mechanisms that are conducive to scale operation by using both fiscal and financial means. (4) Enhancing the management of agricultural funds and making the use of fund more transparent and effective.

#### **4. The State Council issued the opinions on comprehensively introducing CII for urban and rural residents**

On August 3, the State Council issued the opinions on comprehensively introducing the critical illness insurance (CII) for urban and rural residents. (1) Improving the financing mechanism of CII, scientifically setting financing standards, stabilizing sources of funding, and raising the level of fund pooling. (2) Covering all the urban and rural residents and gradually increasing the benefits. (3) Enhancing the connection with other health schemes, such as the basic medical insurance, medical aid, emergency aid, commercial health insurance and charitable aid. (4) Supporting the underwriting for CII by

commercial insurers, regulating the bidding and contract management of CII, creating a dynamic adjustment mechanism for surplus and loss, and building up the service capacity.

#### **5. MOF issued the Measures for the Administration of Central Government's Special Funds for Service Sector Development**

On August 4, MOF issued the *Measures for the Administration of Central Government's Special Funds for Service Sector Development*. (1) The special funds are used to support the innovative and modern circulation of goods, provide better public services to the modern service sector, improve the structural adjustment of the circulation industry, promote urban-rural market development and expand domestic consumption. (2) The special funds will take precedence in adopting market-based forms such as equity investment, industry fund and PPP. (3) The special funds, in principle, will be allocated by the factor method, but the project method will also be used where planning and programming is required.

#### **6. MOF, GAC and SAT issued the Circular on Resuming Levying VAT on Fertilizer**

On August 10, MOF, the General Administration of Customs (GAC) and the State Administration of

Taxation (SAT) issued the *Circular on Resuming Levying VAT on Fertilizer*, which provides the following: value-added tax on fertilizer sales and imports is charged at 13% and will come back into effect from September 1. The previous VAT free and rebate policy will cease to be effective. The VAT will continue to be exempted on organic fertilizer production and circulation in a bid to encourage the production and use of organic fertilizer, optimize fertilizer application structure and promote sustainable development of agriculture. Furthermore, agricultural production and farmers' incomes will not be affected by the policy change as the government has set up a subsidy for agricultural materials and a dynamic adjustment mechanism to keep related prices stable.

## 7. The State Council issued several opinions on further promoting tourism investment and consumption

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On August 11, the State Council issued several opinions on further promoting tourism investment and consumption. (1) Implementing tourism infrastructure upgrade plan to improve consumption environment. The government will enhance soft environment of consumption, city tourist information centers and transport centers, and the construction of roads and parking lots in connected scenic spots, the regional airports for tourism in central and western part and

washrooms for tourists. (2) Implementing new tourism investment promotion plan to explore growth in new tourism markets such as road trips, cruises, yacht and leisure resorts by utilizing the Internet. (3) Stepping up the reform efforts to promote sustainable growth in tourism investment and consumption by enhancing the government support, enforcing the policy of differentiated use of land, sea and island, and expanding financing channel for tourism enterprises.

## 8. MOF issued the circular on business tax exemption on deposited personal insurance products of more than one year

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On August 13, MOF issued the circular on business tax exemption on deposited personal insurance products of more than one year. (1) The business tax on premium revenue of deposited personal insurance of more than one year is exempted for insurance companies. (2) The accounting of the business tax exempted personal insurance products shall be carried out separately by insurance companies. If not, no exemption is allowed. (3) The deposited personal insurance products that have been included in the free list previously issued by MOF and SAT will continue to enjoy exemption. Insurance companies can apply for filing procedure from tax authorities for the qualified deposited personal insurance of more than one year that they issued after October 1, 2014. The issued date of insurance products

shall be the date on the acknowledgement letter or approval documents.

## 9. The State Council issued the opinions on promoting accelerated development of financing guarantee sector

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On August 13, the State Council issued the opinions on promoting accelerated development of financing guarantee sector. (1) To play the supporting role of government and enhance the service capacity of financing guarantee institutions by vigorously developing financing guarantee institutions supported by government and enhancing capacity building of financing guarantee institutions. (2) To play the leading role of government and advance the development of indirect guarantee system by speeding up the development of indirect guarantee system, perfecting indirect guarantee mechanism, improving assessment mechanism of government financing guarantee and indirect guarantee institution at provincial level. (3) To build sustainable commercial cooperation relationship between banks and guarantee institutions by setting up a cooperation mode in which governments, banks and guarantee institutions jointly participate, improving bank-guarantee institutions cooperation policy and optimizing environment for bank-guarantee institutions cooperation. (4) To effectively fulfill supervision function and stick to the underlying

principle by facilitating the rule of law of supervision, clarifying supervision responsibility of local governments and enhancing self-regulation and personnel development. (5) To strengthen collaboration and make concerted efforts to support the development of financing guarantee sector by implementing supportive fiscal and taxation policy and foster an enabling environment for development.

## 10. MOF issued the circular on accelerating the establishment of quota system for project expenditure at central level

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On August 18, MOF issued the circular on accelerating the establishment of quota system for project expenditure at central level. (1) The quota that has been listed in the plan but not set up on time should be developed by the end of June 2016. (2) The quota should be mainly set up for the measurable recurrent expenditures that are difficult for the market to decide standards and should meet the needs of urgent projects. (3) The quota standards for projects with the same or similar expenditure items can be formulated by category with coordination. (4) To establish dynamic monitoring mechanism. (5) To improve implementation mechanism. (6) To optimize management procedure by integrating quota management into departmental budget management procedure and promoting the application, review and approval of quota plan

and department budget at the same time. (7) To enhance the fundamental management.

## 11. The State Council decided to further promote preferential tax policy for small and micro businesses

On August 19, Premier Li Keqiang presided over the executive meeting of the State Council and pointed out to continue implementing targeted control, further enhance the tax support to small and micro businesses and well implement the introduced preferential tax policies. Furthermore, the meeting decided: (1) from October 1, 2015 through the end of 2017, the firms that are eligible for 50% off of corporate tax rate preference will be extended to those with an annual taxable income below 300,000 RMB instead of 200,000 RMB; (2) the exemption of value-added tax and business tax for small businesses with monthly sales between 20,000 RMB to 30,000 RMB will be extended to the end of 2017. That exemption was set to expire at the end of this year.

## 12. MOF issued the circular on administrative fee collection by NRA

On August 20, MOF issued the circular on administrative fee collection by the National Railway Administration (NRA): (1) NRA

charges test attendants while organizing Railway Vehicles Driving Qualification Test. (2) NRA should use the unified note issued by MOF for test fee collection. (3) The test fee collected should be turned in central treasury in full amount under the central budget management. The central government allocates fund needed for the organization of qualification test. (4) NRA should strictly adhere to the above-mentioned rules and be subject to the monitoring of finance, price and audit departments. No expansion of charging item and scope without authorization is allowed.

## 13. The State Council published the Administrative Measures for the Investment of Basic Pension Funds

On August 24, the State Council published the *Administrative Measures for the Investment of Basic Pension Funds*. (1) Pension funds can only be invested domestically in bank deposits, central bank bills, treasury bonds, pension products, stocks, treasury futures and etc. (2) Pension funds can invest in major national projects through appropriate ways. (3) Pension funds can make equity investment in the restructuring and public listing of major state-owned enterprises. (4) The proportion of combined investment in stocks, stock funds, mixed funds and stock-related pension products shall not exceed 30% of pension funds' total net asset value; the proportion of combined investment in major national projects and key

enterprises shall not exceed 20% of pension funds' total net asset value. (5) Pension fund assets can only be invested in stock index futures and treasury bond futures for the purpose of hedging.

#### **14. MOF published the circular on canceling the shipping-related administrative fees**

On August 25, MOF published the circular on canceling the shipping-related administrative fees. (1) Starting from October 1, 2015, the administrative fees enacted by the central government, including the port fees, escort fees for special-purpose vessels and marine projects, and temporary ship registration fees will be canceled. (2) The finance and price authorities of all provinces (regions and municipalities) shall clean up the shipping-related administrative fees enacted by the provincial-level governments. (3) The expenses required for conducting business of relevant authorities shall be financed by the public budget of their respective level of government. (4) The relevant fee-collecting agencies shall hand over the invoices of fees to finance authorities for disposal.

#### **15. The State Council issued the guiding opinions on the pilot program of using operating rights of contracted rural land and property rights of farmers' houses as**

#### **collaterals for loans**

On August 26, the State Council issued the guiding opinions on the pilot program of using operating rights of contracted rural land and property rights of farmers' houses as collaterals for loans. (1) Making good use of the "two rights"<sup>1</sup> as collaterals and stepping up financial support for agriculture, rural areas and farmers. (2) When extending loans, financial institutions shall consider the traits of the "two rights" to come up with innovative supports on interest rate, maturity and risk control. (3) Creating a collateral-disposal mechanism to guard against potential risks. (4) Pilot regions shall accelerate the registration and certification of the operating rights of contracted rural land, rights to use rural residential land and ownership of farmers' houses, and consider the certification of the operating rights of contracted rural land acquired through land transfer. (5) Intensifying the synergy and coordination to increase the effectiveness of pilot program.

#### **16. The State Council planned to further clean up and regulate the import and export fees to reduce the burden of enterprises**

On August 27, in an attempt to reduce the burden of enterprises, the Executive Meeting

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<sup>1</sup> "two rights" refers to the operating rights of contracted rural land and property rights of farmers' houses.

of the State Council planned to further clean up and regulate the import and export fees. (1) Reducing the import and export fees administered by the central government and lowering the level of service fees administered by local government; combining or canceling the repeated fees charged in the customs clearance process. (2) Unifying the charges at domestic and foreign trade ports, creating a regular cost review and disclosure system, and regulating the charging of port fees. (3) Banning the practice of charging mandatory or designated service fees in import and export process, introducing competition to service provision, enforcing market-based fee charging, and cracking down on arbitrary fees enacted through monopoly or abuse of power.

## II. Facts & Figures

### 1. China's manufacturing PMI in July is 50.0%

The data released by the National Bureau of Statistics (NBS) on August 1 shows that China's manufacturing PMI in July 2015 is 50.0%, down by 0.2 percentage point month on month. Large, medium and small-sized

enterprises have all seen the drop of their PMI: the figure is 50.6% for large-sized ones, down by 0.2 percentage point month on month; 50.0% for medium-sized ones, down by 0.2 percentage point month on month; and 46.9% for small-sized ones, down by 0.6 percentage point month on month. In addition, China's non-manufacturing business activity index in July is 53.9%, up by 0.1 percentage point month on month.

### 2. MOF decided to issue the 7<sup>th</sup> and 8<sup>th</sup> installment of savings bonds for 2015

The data released by MOF on August 3 shows that MOF decided to issue the 7<sup>th</sup> and 8<sup>th</sup> installment of savings bonds for 2015. Both installments are of fixed rate and fixed maturity, and amount to a total of 40 billion RMB. The 7<sup>th</sup> installment has a 3-year maturity and an annual coupon rate of 4.5%, and is worth up to 20 billion RMB; the 8<sup>th</sup> installment has a 5-year maturity and an annual coupon rate of 4.87%, and is worth up to 20 billion RMB. The issuing date of both installments is between August 10 and 19, 2015. The interests start accruing on August 10, 2015, and is payable annually on August 10. The principals and the interests of the last year are payable on August 10, 2018 and August 10, 2020 respectively for the 7<sup>th</sup> installment and the 8<sup>th</sup> installment.

### 3. China's e-commerce transaction value reached 16.39 trillion RMB in 2014

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The data released by NBS on August 3 shows that China's e-commerce transaction value reached 16.39 trillion RMB in 2014, up by 59.4% year on year. The transaction value on the proprietary platforms of enterprises was 8.72 trillion RMB, up by 65.9% year on year; the transaction value on the third party platforms was 7.01 trillion RMB, up by 53.8% year on year; and the transaction value on the platforms mixing both proprietary and third party ones amounted to 0.66 trillion RMB, up by 41.1% year on year.

### 4. China's small and micro-sized enterprise operation index is 47 in July

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The data released by Economic Daily on August 5 shows that China's small and micro-sized enterprise operation index is 47 in July, down by 0.2 point month on month, among which, cost index rises by 0.7 point, confidence index stays the same, while market index, procurement index, performance index, expansion index, financing index and risk index drop slightly. The small and micro-sized enterprise operation index also diverges among industries, as it goes up slightly in the farming, forestry, herding and fishing industry, transportation industry and accommodation and catering industry, rising by

0.1 point, 0.4 point and 0.3 point respectively, while continuing the downward trend in other manufacturing industry, construction industry, wholesale and retail industry and service industry.

### 5. The central government earmarks 1.6 billion RMB for wetland protection in 2015

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The data released by MOF on August 7 shows that the central government will continue to intensify the support of wetland protection in 2015. 1.6 billion RMB has been earmarked for such purpose, among which, 680 million RMB for wetland protection and recovery, 115 million RMB for wetland restoration, 405 million RMB for ecological compensation of wetland, and 400 million RMB for rewarding the efforts of wetland protection.

### 6. China's CPI went up by 1.6% year on year in July

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The data released by NBS on August 9 shows that the consumer price index (CPI) of China went up by 1.6% year on year in July. The prices grew by 1.7% in cities and 1.5% in rural areas. The food prices went up by 2.7%, and the non-food prices increased by 1.1%. The prices of consumer goods went up by 1.4%, and the prices of services grew by 2.2%. On average from January to July, the



overall consumer prices went up by 1.3% over the same period of the previous year. In July, the consumer prices went up by 0.3% month on month. In breakdown, prices increased by 0.3% in cities and 0.3% in rural areas. The food prices went up by 0.7%, and the non-food prices went up by 0.1%. The prices of consumer goods increased by 0.2%, and the prices of services increased by 0.5%.

## **7. The central government allocated an extra 5 billion RMB as subsidy for renovation of rural dilapidated houses**

The data released by MOF on August 12 shows that MOF has allocated an extra 5 billion RMB as subsidy for rural dilapidated houses renovation, particularly for earthquake resistance renovation of rural houses in high seismic fortification intensity areas as supplement to 31.5 billion RMB jointly allocated by MOF, the National Development and Reform Commission (NDRC) and the Ministry of Housing and Urban-Rural Development (MOHURD). In 2015, the central government appropriated 36.5 billion RMB of subsidy for rural houses renovation, an increase of 13.5 billion RMB compared with last year, to support renovation of 4.32 million dilapidated houses of poor people in rural areas, 1.66 million more than that of last year. Among this, 1.26 million houses are in high seismic fortification intensity areas in accordance with the requirement of the State Council.

## **8. Revenue of general public budget reached 1.4249 trillion RMB in July**

The data released by MOF on August 12 shows that China's revenue of general public budget reached 1.4249 trillion RMB in July, up by 12.5% year on year and by 9.1% of the same caliber. The expenditure of general public budget in July was 1.2732 trillion RMB, up by 24.1% year on year and by 22.4% of the same caliber. From January to July, the total general budget revenue was 9.3849 trillion RMB, up by 7.5% year on year and by 5.4% of the same caliber. The general budget expenditure was 9.002 trillion RMB, up by 13.4% year on year and by 12.1% of the same caliber, finishing 52.5% of the budget, 0.6% higher than the same period of last year.

## **9. China's value added of the industrial enterprises above designated size was up by 6% in July**

The data released by NBS on August 12 shows that in July, the total value added of the industrial enterprises above designated size was up by 6% year on year in real terms, 0.8 percentage point lower than that in June. In July, the total value added of the industrial enterprises above designated size went up by 0.32% month on month. In the first seven months of 2015, the total value added of the industrial enterprises above designated size was up by 6.3% year on year.

## 10. National real estate development and sales in the first seven months of 2015

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The data released by NBS on August 12 shows that the total investment in real estate development in the first seven months of 2015 was 5.2562 trillion RMB, a nominal increase of 4.3% year on year, 0.3 percentage point lower over the first six months. In the first seven months, the floor space of commercial buildings sold stood at 599.14 million square meters, a year-on-year increase of 6.1%, and an increase of 2.2 percentage points over the first six months. The sales of commercial buildings amounted to 4.1171 trillion RMB, an increase of 13.4%, 3.4 percentage points higher than the growth rate of last month. Specifically, the sales of residential buildings went up by 16.8%, office buildings up by 2.1%, buildings for commercial business down by 1.9%. In July, the national real estate climate index was 93.03, increasing by 0.4 point month on month.

## 11. China's total retail sales of consumer goods grew by 10.5% in July

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The data released by NBS on August 12 shows that in July, the total retail sales of consumer goods reached 2.4339 trillion RMB, a nominal increase of 10.5% year on year. Of the total, the retail sales of consumer goods of units above designated size were 1.1005 trillion RMB,

increasing by 7.3%. From January to July, the total retail sales of consumer goods reached 16.5916 trillion RMB, up by 10.4% year on year. Of the total, the retail sales of consumer goods of units above designated size were 7.7265 trillion RMB, increasing by 7.3%.

## 12. Performance of SOEs from January to July

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Data released by MOF on August 19 indicated that from January to July this year, the total operating revenues of state-owned enterprises (SOEs) amounted to 25.36594 trillion RMB, down by 6.1% year on year. The total operating cost of SOEs amounted to 24.61156 trillion RMB, a decline of 5.6% year on year. The total profit of SOEs reached 1.41579 trillion RMB, down by 2.3% year on year. The tax payable of SOEs registered at 2.18904 trillion RMB, an increase of 2.9% year on year and the total assets went to 109.42194 trillion RMB, up by 11.5% year on year. The total liabilities amounted to 71.26067 trillion RMB, an increase of 11.2% year on year while the total owners' equity amounted to 38.16127 trillion RMB, up by 12.1% year on year.

## 13. The central government allocated 20.98 billion RMB to support the development of modern system for public cultural service

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Data released by MOF on August 19 indicated that the central government allocated 20.98 billion RMB for the development of public cultural service system, 173 million RMB more than that of 2014. The fund is mainly used for the following purpose: (1) 5.157 billion RMB for free opening of cultural facilities for public welfare. (2) 13.006 billion RMB for maintenance and equipment purchase of public cultural and sports facilities, broadcasting and television coverage, and public digital culture development at local level. (3) 310 million RMB for speeding up the development of cultural talent team working for remote and poor regions, ethnic minority regions in the border areas and old revolutionary base areas. (4) 2.508 billion RMB to support major cultural programme, plan and projects development in minority areas determined by the State Council.

#### **14. China's import and export of service increased by 13.3% year on year in the first half of 2015**

Data released by the Ministry of Commerce (MOFCOM) on August 20 indicated that China's import and export of service increased by 13.3% year on year, with total volume of 318.8 billion US dollars. The import and export of services rose over 10% for two executive quarters, with 10.6% in the first quarter and 15.7% in the second quarter. From January to June, services trade accounted for 14.5% in foreign trade, up by 0.6% year on year. From January to July, China directly

invested in 48 countries involved in "the Belt and Road" initiative with total investment volume reaching over 8.59 billion US dollars, a year-on-year increase of 29.5%.

#### **15. China's lottery sales in July**

The data released by MOF on August 24 shows that nationwide lottery sales in July totaled 27.047 billion RMB, down by 10.162 billion RMB year on year, or 27.3%, among which, welfare lottery sales were 15.577 billion RMB, down by 1.855 billion RMB, or 10.6%; sports lottery sales were 11.47 billion RMB, down by 8.307 billion RMB, or 42%. Cumulative nationwide lottery sales from January to July totaled 214.725 billion RMB, down by 894 million RMB year on year, or 0.4%, among which, welfare lottery sales were 118.421 billion RMB, up by 2.488 billion RMB, or 2.1%; sports lottery sales were 96.304 billion RMB, down by 3.382 billion RMB, or 3.4%.

#### **16. The central government disbursed 15 billion RMB of special funds for the development of pre-school education**

The data released by MOF on August 24 shows that the central government has disbursed 15 billion RMB of special funds for the development of pre-school education. The funds will be used as rewards to guide and support local efforts in

expanding access to inclusive pre-school education resources through a variety of forms, including building, expanding or renovating education facilities, purchasing services and enforcing pilot volunteer teaching program in remote rural areas. According to the statistics, from 2011 to 2015, the central government has disbursed a total of 71.93 billion RMB of special funds for the development of pre-school education.

### 17. China's central bank lowered benchmark lending and deposit rates as well as cut required reserve ratio

The data published by China's central bank on August 25 shows that starting from August 26, 2015, the benchmark lending and deposit rates of RMB will be lowered. The one-year benchmark lending rate of financial institutions is lowered by 0.25 percentage point to 4.6%; the one-year benchmark deposit rate is lowered by 0.25 percentage point to 1.75%; other sorts of benchmark lending and deposit rates as well as the lending and deposit rates of individual housing provident fund are adjusted accordingly. Starting from September 6, 2015, the RMB required reserve ratio of financial institutions will be lowered by 0.5 percentage point. Meanwhile, the same ratio for rural financial institutions, such as rural commercial banks, rural cooperative banks, rural credit cooperatives and village and township banks, will be cut by an extra 0.5 percentage point; and the ratio for financial

leasing companies and auto finance companies will be cut by an extra 3 percentage points.

## III . MOF Events

1. On July 28, Finance Minister Lou Jiwei met with Mr. Kubat Umurzakov, Director of the CAREC Institute, and exchanged views over the establishment of the CAREC Institute and its future development.

2. On August 3, Assistant Finance Minister Zou Jiayi met with Mr. Christopher Heathcote, Chief Executive of the Global Infrastructure Hub, and exchanged views over infrastructure investment and relevant G20 issues.

3. On August 12, Vice Finance Minister Zhu Guangyao met with Dr. David Gruen, the G20 Sherpa of Australia, and exchanged views over G20 agenda.

4. On August 17, MOF convened the meeting on studying and implementing inspection rules. Finance Minister Lou Jiwei delivered remarks

to arrange for the deepening study of inspection rules and raised specific requirement to further enhance and improve inspection work of MOF.

5. On August 24-25, Vice Finance Minister Shi Yaobin and Mr. Lezhava, Deputy Finance Minister of Georgia, co-chaired the Sixth Chief Negotiators' Meeting on the Establishment of the AIIB in Tbilisi, Georgia.

## IV. Local Finance

### 1. The pilot program of compensating arable land protection has yielded outcomes in Zhejiang Province

According to the news released by the Finance Department of Zhejiang Province on August 4, the pilot program of compensating arable land protection has yielded its outcomes after years of exploration and practice. (1) Most of the pilot counties have basically created a financial compensation mechanism for arable land protection. (2) By compensating the protectors of arable land, the pilot policies have directly increased the income of rural collective organizations and farmers. (3) The awareness

of arable land protection is raised due to the publicity of such policies, and illegal use of land is effectively curbed as pilot counties work hard to improve their management of land. (4) The quality of arable land and the food production capacity are improved as rural collective organizations are provided with financial incentives and many pilot counties are linking the compensation with the growing of food crop.

### 2. Hebei Province poised to comprehensively roll out performance-based budgeting

According to the news released by the Finance Department of Hebei Province on August 5, Hebei has recently called for the province-wide implementation of performance-based budgeting. (1) Budget preparation shall have clear targets. Government budget is determined according to the government's administrative targets, departmental budget to the department's mandate, and program budget to the level of performance. (2) Budget execution shall be monitored. A management loop covering budget preparation, budget execution, performance evaluation and application of evaluation results shall be formed, with the performance information and program indicators running through the process to enable dynamic monitoring and real-time management. (3) Evaluation shall be made after the budget execution, evaluation results be applied, and performance failings, if any, be held accountable.

The focus of fiscal supervision shall shift towards compliance inspection as well as performance oversight and evaluation; the performance evaluation reporting system and performance accountability system shall be improved, and the transparency of performance information be enhanced.

### **3. The pilot program of subsidizing social service to the whole process of agricultural production has yielded outcomes in Chongqing Municipality**

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According to the news released by the Finance Bureau of Chongqing Municipality on August 11, in line with the reality of development, Chongqing Municipality has enhanced the efforts of innovation and exploration to timely formulate pilot plan and strengthen working guidance which enabled initial outcomes of the pilot. There are three prominent features of the design of subsidy system: the targets are changed, the links become more flexible and the rate is not uniform. Five staged outcomes have been achieved. Firstly, grain-growing has shifted from unprofitable to profitable. In accordance with the weighted calculation on the fiscal subsidy to the social service for the whole process of rice production, the cost of farmers is cut by 50% theoretically. Secondly, the mode of grain-growing has transformed into scale and intensive growth pattern. Thirdly, the way of grain-growing has

moved from the traditional one to modern one. The problems of scientific growing have been fundamentally solved. Fourthly, the benefit of grain-growing has changed from traditional yield to extended returns. The farmers not only plant things edible, but also the things appreciable, which increased the value added of agriculture. Fifthly, compared to the past when no one was willing to plan crops, grain-growing has become a favorite sector nowadays. With fiscal subsidy and broad participation of farmers, service institutions are benefiting from all links.

### **4. Guangxi Zhuang Autonomous Region vigorously promoted reform and innovation of comprehensive development of agriculture**

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According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on August 12, in accordance with the overall requirement of fiscal and taxation system reform of Guangxi, the region has been earnestly implementing various policies on the issue of agriculture, farmers and rural areas, promoting the comprehensive development of agriculture in the whole picture of agriculture, farmers and rural areas, and constantly facilitating as well as enhancing dynamism of agricultural comprehensive development through reform and innovation of the development system and mechanism. Firstly, actively promoting appropriate scale

management and transforming production and management methods; integrating two types of projects to promote industrialized development; and adjusting means to improve projects fund use efficiency. Secondly, stimulating vitality, giving play to the management function and fully mobilizing enthusiasm of agricultural departments at city level to rationalize duties of agricultural development institutions at all levels while streamlining administration and delegating power. Thirdly, innovating projects approval procedure to explore new mechanisms to develop projects and establish cooperation mechanism.

## **5. Guangdong Province promotes the pilot program of comprehensive reform for equalization of public service**

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According to the news released by the Finance Department of Guangdong Province on August 18, the province will further expand the pilot of comprehensive reform for equalization of public service, formulate implementation plan in line with local circumstance, and proactively and steadily promote reform. Firstly, to improve investment mechanism by further adjusting and optimizing expenditure structure of public finance and perfecting transfer payment system and state-owned capital operation budget system. Secondly, to innovate supply mode by deepening reform of government procurement of social service, easing

the access limitation of basic public service investment and establishing diversified supply mechanism of basic public service. Thirdly, to improve management mechanism by setting up and enhancing sound coordination mechanism for equalization of basic service and strengthening the supply of basic service to migrant workers. Fourthly, to explore democratic decision-making mechanism by exploring the mechanism of soliciting public opinions for decision-making of major policies and projects related to the livelihood of people. Fifthly, to optimize performance evaluation mechanism by increasing the weight of basic public service performance in the political achievement assessment and establish performance evaluation mechanism.

## **6. Sichuan Province took multiple measures to support and promote employment and entrepreneurship**

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According to the news released by the Finance Department of Sichuan Province on August 19, since the beginning of 2015, Sichuan has earnestly increased fiscal input to fully support the implementation of more proactive employment policy and to promote employment and entrepreneurship. Firstly, increase investment of special fund for employment. 2.106 billion RMB of special fund for employment has been allocated by central and provincial governments to support the implementation of employment assistance and promotion policies

including subsidy to social security and public welfare positions. Secondly, support university graduates to get employed and start business. The entrepreneurship subsidy fund and special fund for university graduates have been integrated as entrepreneurship assistance fund and 300 million RMB has been allocated. Thirdly, play the role of unemployment insurance to promote employment. Unemployment insurance fund will provide subsidy to enterprises that stabilize employment in merger and acquisition, resolving severe excess production capacity and eliminate backward production capacity.

## 7. Finance authorities of Kunming City, Yunnan Province took four measures to strengthen the management of fiscal expenditure

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According to the news released by the Finance Department of Yunnan Province, Kunming city attaches great importance to the management of fiscal expenditures and has taken four measures to increase the efficiency of budget expenditure. (1) Speeding up the disbursement of funds and improving the mechanism for dynamic monitoring of budget. (2) Spending within the means and strictly enforcing the annual budget approved by the People's Congress in early 2015. (3) Earnestly following the requirements of frugality and curbing the increase of the "three public expenses". (4) New general expenditure items, in principle, shall not be added to the budget

except in cases where the city government has to implement certain new policies introduced by higher-level government or where natural disaster suddenly occurs or where the city Party Committee and government explicitly require the addition of such item.

## 8. Finance authorities of Chongqing Municipality unveiled new measures to fight poverty

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According to the news released by the Finance Bureau of Chongqing Municipality on August 27, Chongqing is making efforts to ensure over 75% of new financial resources will be allocated to districts, counties and other grass-root communities, particularly the poor ones; new general transfer payment will mainly go to poor districts and counties; and the per capita increase of financial resources in poor districts and counties will be higher than that of the municipal average. Specifically, (1) the positive incentives will be nurtured as poverty reduction efforts continue its momentum and matching funds are no longer required; (2) tailored policies will be rolled out to spur poverty reduction efforts, and transfer payment as well as rewards will be made according to the progress of transforming farmers into urban residents; (3) the poverty-reduction units with similar mandates and functions will be consolidated into a single agency to ensure "one centralized body, one target, one system, and across-the-board accountability."



## V. Remarks & Opinions

### 1. Lou Jiwei: actively promoting the role of public finance to boost the stable growth of economy

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Finance Minister Lou Jiwei in his recent speech said that China's economy is getting stable and better amid the slowdown, but the downward pressure is still immense. Going forward, finance authorities shall follow the plans made by the Central Committee of CPC and the State Council, continue to stick to the overall principle of progressing while maintaining stability, take both the short-term and long-term views, and combine innovative macro control with structural reform. (1) Earnestly implementing the proactive fiscal policies. Major projects shall progress faster, fiscal funds be used more effectively, taxes be lowered and fees be cleaned up. (2) Accelerating the application of PPP. Relevant legal and policy framework shall be put into place, market-based operation be emphasized, risk awareness be raised, and PPP projects be done in a well-regulated way. (3) Further improving the government debt management by transforming the government financing vehicles

into market entities and regulating the local government borrowing. (4) Giving full play to the role of all types of investment guiding funds. All sorts of investment guiding funds shall be set up and new models of operation be explored to direct private capital investment to key areas and weak links in social and economic development. (5) Pushing forward fiscal and tax reform which covers a wide array of areas, including the budget disclosure, improvement of government budget system, implementation of medium term fiscal plan, reform of transfer payment system, adoption of performance-based budget, establishment of accrual-based government financial reporting system, VAT reform, consumption tax reform, improvement of resource tax, enforcement of the principle of law-based taxation, reform of the division of duties and spending obligations between central and local governments, and the transformation of the inspector's office.

### 2. Jin Liqun: how can China stride over "middle-income trap"

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Jin Liqun, the President-designate of the AIIB, in his recent article said that China has already entered the stage of the middle and high income development, where there are not only unprecedented opportunities to move up to the league of high-income countries but also risks of falling into middle-income trap. While fully recognizing risks and challenges, it should be

also noted that China enjoys its own favorable conditions and advantages. Firstly, human capital of China will grow at a faster pace in the next 10 years, which will dramatically offset the negative effects of declined supply of labor force and make it possible that China becomes a high-income country before the absolute disappearance of demographic dividend in 2030. Secondly, with the promotion of fiscal and taxation system reform including transforming business tax to value added tax, the reform effect on upgrade and transformation of enterprises and sectors has started to show. Thirdly, the deepening reform of financial system in recent years, in particular the reform of capital market, is beneficial for playing a bigger role of financial sector in supporting R&D, innovation and resource allocation optimization. Fourthly, the policy of weeding out outdated production facilities and excessive production capacity is forcing enterprises to transform and upgrade. Fifthly, the large scale investment in infrastructure since the international financial crisis will gradually exert its spillover effect on economic efficiency in the next 10 years, which will further increase potential growth rate. Of course, potential growth rate will not automatically turn into real growth. The obstacles must be cleaned through reform so as to make potential growth a reality. Apart from the investment in education and R&D, the government should also play the following roles: firstly, accelerating household registration reform, promoting urbanization, breaking through the segmentation of rural and urban labor force market and promoting

labor force to move from agricultural sector with low productivity to industrial and service sector. Throughout the whole world, the countries that have successfully strided over middle-income trap are the ones that fundamentally reformed their urban and rural structures, accomplished historical tasks of industrialization, urbanization and agricultural modernization, and made the agricultural productivity catch up the average social productivity and rural residents income match that of urban residents. Secondly, strengthening intellectual property protection. The major player of innovation is enterprise, while the soil for innovation is mechanism and environment. The government should provide environment and system guarantee to enterprises for innovation, and stimulate mass entrepreneurship and individual innovation. In addition, the government should accelerate the change of government function through persistent anti-corruption action and rectify administration. In particular, the government should comprehensively promote rule of law to create legalized environment for enterprises.

### **3. Gao Peiyong: transformations of three dimensions should be considered in macro-control process**

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Gao Peiyong, the President of National Academy of Economic Strategy, said in his recent article that the more severe the economic outlook is, the more macro-control from the government is

needed. However, the macro-control under the “new normal” of economic development is not comparable to the past one. The transformations taking place in the following three dimensions must be considered in macro-control process. Firstly, China’s economy is moving towards more advanced form, more complete functions, more integral role and more reasonable structure. Based on this new judgement, the choices made by macro-control must be fully in line with and adapt to the “new normal”. Secondly, given that the national governance thinking based on the new situation and judgment has changed, the macro-control must be fully consistent with the new concept of economic work and innovated in terms of ways and means. Thirdly, even though the fundamental of macro-economic policy needs to expand and enhance efficiency, the new pattern of macro-economic policy should be well planned by giving full play to the role of counter-cyclical and structural adjustment and accommodating multiple targets of stabilizing growth, maintaining employment, preventing risks, adjusting structure, stabilizing price, benefiting people’s livelihood and promoting reform. The current economic situation is too complicated to be explained with the past knowledge structure and research experience. The new ways of macro-control should be constantly explored to get on the right track. In the face of this series of challenges, unprecedented energy and force should be invested to embark on the new control pattern of being highly dense and refined. It should be also noted that the analysis

on the macro-economic policy related to growth stabilization should be calm, prudential and carefully deliberated. Moreover, the major conflicts and prominent issues should be captured to enhance the relevance of policy study and timeliness of operational response. All in all, the accustomed concept, thinking and practice should be comprehensively and properly changed so as to facilitate the transition of macro-economic theory and practice, thus creating the new pattern of macro-economic analysis that adapts to and leads the “new normal”.

#### **4. Xia Jiechang: promoting industrial upgrading with industrial fusion**

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Xia Jiechang, Vice President of National Academy of Economic Strategy, said in his recent article that China’s manufacturing sector is being squeezed by two forces: some high-end manufacturing is flowing back to developed countries and some labor-intensive manufacturing is moving to developing countries with lower labor and business cost. The boundaries among modern industries are getting blurred as industrial sector and service sector are increasingly blended with one another. Therefore, to realize the strategic goal of “Made in China 2025”, it is important to embed the productive service sector that has knowledge-intensive content into the manufacturing sector. As China moves to promote the synergy of productive service sector and manufacturing sector and strives to upgrade the

latter with the help of the former, it needs to start with the following four measures. (1) Encouraging the collaborative development of manufacturing sector and service sector. Domestic and international experience shows that specialization of productive service delivery is closely connected with the development of a strong, specialized and sophisticated manufacturing sector, therefore this measure will not only unleash the demands of service market and cultivate specialized service supplier, but also allow manufacturing enterprises to focus on their main business, thus generating “win-win” outcomes for the two sectors. (2) Extending the industry chain of manufacturing sector and adding more service elements to the final products so as to create more room for profits in the manufacturing sector. (3) Altering the traditional bias of manufacturing sector that values material input over service input, and emphasizing the input of more knowledge-intensive service elements, including R&D, software information, quality control, modern

logistics, supply chain management, inspection and testing, financial leasing and green solution. By doing so, manufacturing sector will be equipped with a “smart brain” that helps transform what is “made in China” into “created in China”. (4) Changing the way that industrialization fuses with IT application. The past emphasis of applying IT in the industrial manufacturing process has its obvious limitations. There is no doubt about the importance of IT-based and intelligent manufacturing, but more importantly, IT shall be applied throughout the whole process of production value chain, and R&D, processing and manufacturing, as well as sales services shall be integrated in a single information platform. Building on this platform, a number of clusters of smart manufacturing industries can be formed, and the value chains of both the service and manufacturing sectors can be deeply integrated to enable the productive service sector to become the propeller of “Industry 4.0” and “Made in China 2025”.