

## I. Policy Update

### 1. Four ministries jointly published the *Circular on Encouraging Merger and Reorganization, Cash Dividend and Share Buyback of Public-listed Companies*

On September 1, the Ministry of Finance (MOF), China Securities Regulatory Commission (CSRC), the State Assets Supervision and Administration Commission (SASAC) and China Banking Regulatory Commission (CBRC) jointly published the *Circular on Encouraging Merger and Reorganization, Cash Dividend and Share Buyback of Public-listed Companies*. (1) Vigorously promoting the merger and reorganization of public-listed companies. The market-based pricing mechanism of merger and reorganization will be improved, the administrative review and approval process will be further streamlined, and the innovation of payment tools and financing models for merger and reorganization will be encouraged. (2) Encouraging the cash dividend of public-listed companies. Public-listed companies should put into place a sound cash dividend system and raise the proportion of cash dividend in profit distribution based on their consideration of the

traits, development stage and profitability of their industries. (3) Strongly supporting the share buyback of public-listed companies. Public-listed companies are encouraged to raise funds for share buyback through a variety of means including the issuance of preferred shares and bonds. The state-controlled public-listed companies should encourage their controlling shareholders and actual controllers to actively increase stakes in them.

### 2. The Executive Meeting of the State Council decided to create the State Fund for SME Development

On September 1, Premier Li Keqiang chaired the Executive Meeting of the State Council. According to the decision of the meeting, the State Fund for SME Development that is worth 60 billion RMB will be created, and by establishing fund of funds and direct funds, market-based measures will be taken to mainly support the development of growing SMEs in the seed and start-up stages. The Fund, in principle, will take the form of limited partnership, and its capital raising, establishment, management, return distribution and exit will all proceed according to the market principles. With the private capitals taking precedence over the state capitals in gaining dividends, more private capitals will be attracted to help boost the dynamism of SMEs in mass entrepreneurship and individual innovation.

### 3. MOF published the circular on continuing the preferential policy

## **on the urban land use tax of the commodity warehouses of logistics companies**

On September 2, MOF published the circular on continuing the preferential policy on the urban land use tax of the commodity warehouses of logistics companies. (1) From January 1, 2015 to December 31, 2016, the lands used by logistics companies as premises for their proprietary commodity warehouses will be eligible for a reduced 50% of urban land use tax. (2) The lands of logistics companies used for working, living or other purposes not directly related to the storage of commodities is not qualified for the above preferential treatment. (3) The preferential treatment does not apply to the warehouses of non-logistics companies. (4) If tax payers, before the issuance date of this circular, have paid the taxes which should have been reduced or exempted, they will be eligible for tax deduction or refund in their future payable taxes.

## **4. MOF published the circular on strengthening the management of Air Pollution Treatment Fund and raising the efficiency of funds using**

On September 2, MOF published the circular on strengthening the management of Air Pollution Treatment Fund and raising the efficiency of funds using: (1) Accelerating the budget execution. The provincial governments should directly fund the key air pollution treatment projects, and the

budget execution reporting system should be created to closely monitor the use of funds for such key projects. (2) Ensuring sufficient funds for key treatment tasks. The local governments should prioritize the funding for the key state-designated tasks and make particular efforts to address them. (3) Enhancing guidance and performance evaluation. MOF and the Ministry of Environmental Protection (MEP) will timely sum up and diffuse the good practice of using the Fund. The performance evaluation will also be stepped up to reward those that perform well and deduct the funds of those that perform poorly.

## **5. MOF published the circular on further expanding the scope of the preferential policy on the corporate income tax of small-scale and low-profit enterprises**

On September 2, MOF published the circular on further expanding the scope of the preferential policy on the corporate income tax of small-scale and low-profit enterprises. (1) From October 1, 2015 to December 31, 2017, the small-scale and low-profit enterprises with an annual taxable income between 200,000 to 300,000 RMB will be qualified for a reduced 50% of taxable income and a corporate income tax rate of 20%. (2) For the small-scale and low-profit enterprises herein, from October 1, 2015 to December 31, 2015 their income will be calculated in proportion to the number of their operating months after October 1, 2015 as a share of their total operating months of

2015. (3) The *Circular of the Ministry of Finance and the State Administration of Taxation on the Preferential Policies on the Corporate Income Tax of Small-scale and Low-profit Enterprises* will continue to be implemented.

## 6. The State Council issued the guiding opinions on accelerating the development of financing leasing sector

On September 7, the State Council issued the guiding opinions on accelerating the development of financing leasing sector, which provides the following. Firstly, build a legalized business environment and actively promote the legislation at higher levels for the sector. Secondly, optimize fiscal and taxation policy to provide a level-playing field to encourage enterprises to innovate technologies and purchase equipment through financing leasing. Thirdly, broaden financing channels so as to encourage various financial institutions including banks, insurance companies, trust and fund to strengthen supports to the financing leasing companies. Fourthly, optimize the public service, gradually set up a unified, standard and comprehensive statistic system and an assessment indicator system for the financing leasing industry, and improve the method, timeliness and accuracy of statistics. Fifthly, strengthen vocational training for staff in the financing and leasing sector and support the qualified colleges and universities to open majors related to financing leasing.

## 7. MOF issued the circular on issues regarding differentiated income tax policy on dividend of listed companies

On September 7, MOF issued the circular on issues regarding differentiated income tax policy on dividend of listed companies, which provides the following. (1) For shares of listed companies acquired by individuals at public offering and transfer markets and held for more than one year, the total dividend tax is temporarily exempted. (2) When the listed companies are paying dividend, for individuals whose holding period is more than one year, the tax can temporarily not be withheld and remitted by companies. (3) Other issues related to differentiated income tax policy on dividend of listed companies are subject to the *Circular of the Ministry of Finance, the State Administration of Taxation and China Securities Regulatory Commission on Issues Regarding Differentiated Income Tax Policy on Dividend of Listed Companies*. (4) Differentiated income tax policy on dividend of companies listed on National Equities Exchange and Quotations is subject to this circular.

## 8. The State Council published the guiding opinions on promoting sound development of financial leasing sector

On September 8, the State Council published the guiding opinions on promoting sound

development of financial leasing sector, which provides the following. Firstly, deepen the reform of system to guide various social investment to financial leasing sector, support private capital to set up financial leasing companies while undertaking risks and expanding the service coverage. Secondly, improve financial leasing service and enhance the support to weak linkages. Thirdly, promote infrastructure development of leasing to fortify the foundation of the industry. Fourthly, gradually perfect the laws and regulations for financial leasing to play the role of lease for risk guarantee. Fifthly, establish self-discipline mechanism to incentivize leasing companies to actively undertake social responsibility and protect the reputation of the sector. Sixthly, supervision will be enhanced to strengthen risk management capacity.

## 9. MOF published the circular on standardizing administrative penalties related to government procurement

On September 8, MOF published the circular on administrative penalties related to government procurement, which provides the following. Firstly, finance departments at all levels should get adequate evidences and apply the right laws and regulations while penalizing wrong doing of government procurement. Secondly, the penalties by finance departments at all levels on procurement suppliers, agencies and evaluation experts shall be conducted in accordance with law

and regulation. Thirdly, finance departments at all levels should disclose the penalty decisions on suppliers, agencies and evaluation experts.

## 10. The Central Committee of CPC and the State Council published the guidelines on deepening the reform of SOEs

On September 14, the Central Committee of CPC and the State Council published the guidelines on deepening the reform of state-owned enterprises (SOEs). (1) Classify SOEs into two categories, i.e., those with commercial purposes and those with public-interest purposes, and proceed with reform measures accordingly. (2) Set up corporate or joint-stock system, modernize corporate governance structure, overhaul the human resource system, enhance the oversight of executives, and make remunerations more reasonable. (3) Shift the focus of regulators towards capital management, optimize the allocation of state-owned capital, and centralize the supervision of the operating state-owned assets. (4) Introduce mixed ownership, encourage the participation of non-state-owned capital in SOE reform, and explore the possibility of employees holding shares in the mixed-ownership SOEs.

## 11. MOF published the *Measures for the Administration of Employment Service Funds for Persons with Disabilities*

On September 14, MOF published the *Measures*

*for the Administration of Employment Service Funds for Persons with Disabilities.* (1) The funds are incorporated into the general public budget of local governments and are mainly used to support the employment and livelihood of the disabled. (2) The regular expenses of the job service providers affiliated to local federations of disabled persons are financed by the local government. (3) Steps should be taken to promote government procurement of services, and qualified public and private job service providers should be selected to undertake vocational training and education for the disabled. (4) Local federations of disabled persons and local finance authorities should annually disclose information on the outlays of the funds in supporting the employment and livelihood of the disabled.

## **12. MOF published the circular on improving the work of shanty town renovation**

On September 16, MOF published the circular on improving the work of shanty town renovation. (1) Draw up specific measures, as soon as appropriate, to promote government procurement of services for shanty town renovation, include the dedicated funds for such purpose into budget management, and mobilize resources through multiple channels for shanty town renovation. (2) Take steps to exempt renovation activities from all sorts of fees and charges and extend tax incentives to the gains arising from such activities. (3) Subsidize the interests of loans to

renovation projects. (4) Make efficient use of dedicated funds. (5) Strengthen the management of loans for shanty town renovation. (6) Conduct performance evaluation of public funds used for shanty town renovation.

## **13. The Executive Meeting of the State Council decided to expand the scope of accelerated depreciation of fixed assets**

On September 16, Premier Li Keqiang chaired the Executive Meeting of the State Council. According to the decision of the meeting, to boost effective investment, promote upgrading of industries, and spur the “Created in China” initiative, the scope of accelerated depreciation of fixed assets will be expanded. In addition to the existing 6 industries, including biopharmaceuticals, instruments and apparatus, enterprises in 4 industries, i.e. light industry, textile, machinery and automobile, will be allowed to shorten depreciable life or adopt the accelerated depreciation method on their fixed assets purchased after January 1, 2015. In terms of the purchase of instruments and equipments for research and production by the small and micro enterprises, if the value is no more than 1 million RMB, the sum will be allowed to be included for once in the current costs and eligible for pre-tax deduction; if the value exceeds 1 million RMB, the enterprises will be allowed to shorten depreciable life or adopt the accelerated depreciation method. The implementation of the aforementioned policies is expected to cut tax by

5 billion RMB in 2015.

#### **14. MOF published the circular on issues regarding the integration and establishment of a unified transaction platform for public resources**

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On September 22, MOF published the circular on issues regarding the integration and establishment of a unified transaction platform for public resources, which provides the following. Firstly, orderly facilitating integration of government procurement resources, including the information system, procurement centers and assessment experts in accordance with laws. Secondly, improving and rationalizing government procurement management and transaction rules. Thirdly, optimizing functional mechanism of government procurement by sharing and disclosing procurement information and setting up the mechanism for both centralized and decentralized procurement. Fourthly, perfecting the monitoring system for government procurement and strengthening supervision.

#### **15. MOF published the circular on further improving the corporate tax policies on accelerated depreciation of fixed assets**

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On September 22, MOF published the circular on further improving the corporate tax policies on accelerated depreciation of fixed assets,

which provides the following. Firstly, fixed assets acquired after January 1, 2015 by entities engaging in the light, textile, machinery and automobile industries would be eligible to either a shorter depreciation life or an accelerated depreciation method. Secondly, an acquisition of devices and equipment with a unit value of no more than 1 million RMB made after January 1, 2015 is fully deductible in the year of acquisition for corporate income purposes. Items with unit price in excess of such amount would be eligible to either a shorter depreciation life or an accelerated depreciation method. Thirdly, a shorter depreciation life should not be less than 60% of regular depreciation life as stipulated in the implementation regulations of the Law of the PRC on Enterprise Income Tax.

#### **16. The CPC Central Committee and the State Council circulated the Overall Plan for Reform of Eco-Civilization System**

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On September 23, the CPC Central Committee and the State Council circulated *the Overall Plan for Reform of Eco-Civilization System*, which provides the following. Firstly, in accordance with the principal of aligning costs and returns, the owner's equity of resources and the damage to ecological environment should be incorporated in the pricing mechanism of natural resources and related products. Secondly, expanding paid-use scope of state-owned land, reducing the size of land appropriation for non-public welfare

purpose and including revenue and expenditure of state-owned land transfer in budget management. Thirdly, improving mining right transfer system and including revenue and expenditure of state-owned mining resources in budget management. Fourthly, perfecting the paid use system of sea areas and islands. Fifthly, rationalizing tax and fees relationship of natural resources and related products to reasonably set the tax levy scope. Sixthly, exploring the establishment of diversified compensation mechanism, gradually increasing transfer payment to major areas for eco-conservation and enhancing the incentive and binding mechanism for coupling the outcome and fund allocation of ecological conservation. Seventhly, optimizing fund use management in accordance with the treatment requirement of mountain, water, forestry, field and lake.

### **17. MOF published the circular regarding administrative charges under the central management by departments of housing and urban-rural development**

On September 24, MOF published the circular regarding administrative charges under the central management by departments of housing and urban-rural development, which provides the following. Firstly, the departments of housing and urban-rural development above county levels charge agencies and individuals for architectures, buildings and infrastructure constructions that occupy roads in city development plan. Secondly,

the departments of housing and urban-rural development above county levels charge agencies and individuals for excavating roads in city development plan because of constructions and first-aid repair of underground pipelines. Thirdly, the termite control and prevention institutions under the departments of housing and urban-rural development above county levels charge construction entities and individuals that should have termite prevention in accordance with laws. Fourthly, handling fee for housing transfer should be charged by real estate transaction entities under the departments of housing and urban-rural development above county levels. Fifthly, housing registration fee should be charged by real estate registration entities under the departments of housing and urban-rural development above county levels.

### **18. The State Council published guidelines on developing mixed ownership of SOEs**

On September 25, the State Council published the guidelines on developing mixed ownership of SOEs, which provides the following. Firstly, promoting mixed ownership reform of SOEs by categories. Market-oriented companies with their main business in competitive sectors are encouraged to steadily promote the mixed-ownership reform. Secondly, orderly implementing mixed ownership reform at the subsidiary level and exploring it at the group level. Thirdly, encouraging all kinds of capital,

including private capital, collectively owned capital and foreign capital to take part in SOE mixed ownership reform. PPP model will be disseminated. Fourthly, establishing and improving corporate governance mechanism for mixed owned enterprises. The dominant role of enterprises in market should be ensured. The professional manager system of mixed ownership enterprises should be promoted.

## II. Facts & Figures

### 1. China's electricity generation and consumption amounted to 463.349 billion kWh in August

The data published by [www.gov.cn](http://www.gov.cn) (the website of the Central People's Government of China) on August 31 shows that from August 1 to 28, China has generated and used 463.349 billion kWh of electricity, up by 2.97% year on year, or an increase of 6.54 percentage points over the same period of 2014 and 4.97 percentage points over July. In early and mid August, the growth rate of China's electricity generation and consumption was 1.89% and 5.78% respectively; in late August, namely from August 21 to 28, the growth rate was 0.95%. In early and mid August, North China,

East China, Central China, Northwest China and South China have all seen positive growth of electricity generation and consumption, with the average daily level rising by 1.39%, 6.87%, 6.56%, 3.55% and 0.37% respectively; while Northeast China saw its figure drop by 1.15% year on year. East and central regions contributed 81.3% to China's total growth of electricity generation and consumption, and jointly raised the growth rate by 2.86 percentage points.

### 2. China's Non-manufacturing Business Activity Index in August stood at 53.4%

The data published by the National Bureau of Statistics (NBS) on September 1 shows that China's Non-manufacturing Business Activity Index in August stood at 53.4%, down by 0.5 percentage point month on month. However, the figure still remains 3.4 percentage points above the watershed level of 50%, indicating that China's non-manufacturing sector still maintains a trend of stable growth. In breakdown, the index for the service sector was 52.6%, down by 0.2 percentage point month on month; and the index for the building sector was 57.8%, down by 2.3 percentage points month on month.

### 3. China's manufacturing PMI in August was 49.7%

The data published by NBS on September 1 shows that China's manufacturing PMI in August



was 49.7%, down by 0.3 percentage point month on month, and stood below the watershed level of 50%. The PMI of big-sized enterprises was 49.9%, down by 0.7 percentage point month on month, dropping below 50% for the first time in 2015; the PMI of medium-sized enterprises was 49.8%, down by 0.2 percentage point month on month, and stood below 50%; the PMI of small-sized enterprises was 48.1%, up by 1.2 percentage points, and though contraction remained, the drop got less severe in August.

#### 4. Bulletin on the preliminary verification data of GDP in 2014

The data published by NBS on September 7 shows that after preliminary verification, the total GDP at current price in 2014 amounted to 63,613.9 billion RMB, a decrease of 32.4 billion RMB than the preliminary accounting number, and an increase of 7.3% at constant price, which was 0.1 percentage point lower than the preliminary accounting number. In breakdown, the value-added of the primary industry was 5,833.6 billion RMB, 0.4 billion RMB higher than the preliminary accounting number, and increased by 4.1%, remained at the same level with the preliminary accounting number. The value-added of the second industry was 27,176.4 billion RMB, 37.2 billion RMB higher than the preliminary accounting number, and increased by 7.3%, remained at the same level with the preliminary accounting number. The value-added of the tertiary industry was

30,603.8 billion RMB, 70.1 billion RMB lower than the preliminary accounting number, and increased by 7.8%, 0.3 percentage point lower than the preliminary accounting number. Calculated according to preliminary verification, the primary industry accounted for 9.2%, the secondary industry accounted for 42.7%, and the tertiary industry accounted for 48.1%.

#### 5. China's PPI for manufactured goods decreased by 5.9% year on year in August

The data published by NBS on September 10 shows that Producer Price Index (PPI) for manufactured goods decreased by 0.8% month on month, and decreased by 5.9% year on year. The purchasing price index for manufactured goods decreased by 0.7% month on month, and decreased by 6.6% year on year. On average from January to August, the PPI decreased by 4.9% year on year, the purchasing price index for manufactured goods went down by 5.7% year on year. The year on year change of producer prices for means of production decreased by 7.7%, meaning 5.8 percentage points decrease in the overall price level. Producer prices for consumer goods went down by 0.3% year on year, meaning 0.1 percentage point decrease in the overall price level.

#### 6. China's CPI in August went up by 2% year on year

The data published by NBS on September 10

shows that the Consumer Price Index (CPI) went up by 2% year on year. The prices grew by 2% in cities and 1.8% in rural areas. The food prices went up by 3.7%, and the non-food prices increased by 1.1%. The prices of consumer goods went up by 1.8% and the prices of services grew by 2.2%. On average from January to August, the overall consumer prices were up by 1.4% over the same period of the previous year. In August, the consumer prices went up by 0.5% month on month. In breakdown, prices increased by 0.4% in cities and 0.6% in rural areas. The food prices went up by 1.6%, and the non-food prices went down by 0.1%. The prices of consumer goods increased by 0.7% and the prices of services increased by 0.1%.

## **7. China's foreign investment in actual use amounted to 54.2 billion RMB in August**

The data published by the Ministry of Commerce on September 10 shows that in August the foreign investment in actual use nationwide amounted to 54.2 billion RMB, up by 22% year on year. In the first eight months of 2015, 16,827 foreign-invested companies were set up, up by 10.7% year on year. Contractual amount of foreign investment reached 1251.11 billion RMB, up by 34.8% year on year. Foreign investment in actual use registered at 525.28 billion RMB, an increase of 9.2% year on year. 5187 foreign-invested companies with the total contractual volume of 22.47 billion US dollars came into termination,

1684 foreign-invested companies with the contractual volume of 11.86 billion US dollars reduced capital, the number decreased by 22.4% and 18.2% and the volume decreased by 24% and 12.9% year on year respectively.

## **8. The value-added of industrial enterprises above designated size went up by 6.1% year on year in August**

The data published by NBS on September 13 shows that the value-added of industrial enterprises above designated size went up by 6.1% year on year, or 0.53% month on month in August. From January to August, this figure rose by 6.3% year on year, or specifically, there was an increase of 4% in the mining sector, 6.8% in the manufacturing sector, and 1.9% in the power, thermal, gas and water sector. In addition, the sales rate of products at industrial enterprises was 97.9% in August, down by 0.2 percentage point year on year. Industrial enterprises posted an export delivery value of 966.5 billion RMB, down by 3.1% year on year in nominal terms.

## **9. China's fixed asset investment increased by 10.9% in the first 8 months of 2015**

The data published by NBS on September 13 shows that China's fixed asset investment (excluding rural households) reached 33.8977 trillion RMB in the first 8 months of 2015, up by

10.9% year on year in nominal terms, a drop of 0.3 percentage point in growth rate compared with the figure for the first 7 months. The fixed asset investment (excluding rural households) rose by 0.73% month on month in August, among which, the primary industry investment was 938.9 billion RMB, up by 28.5% year on year, an increase of 0.3 percentage point of growth rate over the figure for the first 7 months; secondary industry investment was 13.9726 trillion RMB, up by 8.5%, a drop of 0.5 percentage point of growth rate; and the tertiary industry investment was 18.9862 trillion RMB, up by 11.9%, a drop of 0.2 percentage point of growth rate.

## 10. China's retail sales of consumer goods in August went up by 10.8%

The data published by NBS on September 13 shows that retail sales of consumer goods in August totaled 2.4893 trillion RMB, up by 10.8% year on year in nominal terms, or by 10.4% in real terms after adjusted for the price factor. Retail sales by major suppliers of consumer goods were 1.1257 trillion RMB, up by 8%. In the first 8 months, total retail sales of consumer goods amounted to 19.0809 trillion RMB, up by 10.5% year on year, and the sales by major suppliers reached 8.8576 trillion RMB, up by 7.4%.

## 11. China's fiscal revenues and expenditures in August

The data published by MOF on September 15

shows that the revenues under China's general public budget reached 967.1 billion RMB in August 2015, up by 6.2% year on year, or by 3.5% after adjusted for the non-comparable factors. The tax revenues were 753.9 billion RMB, up by 3.5% year on year. The expenditures under the general public budget were 1.2844 trillion RMB, up by 25.9% year on year, or by 24.2% after adjusted for the non-comparable factors. The cumulative revenues from January to August were 10.3521 trillion RMB, up by 7.4% year on year, or by 5.2% after adjusted for the non-comparable factors; and the cumulative expenditures in the same period were 10.2864 trillion RMB, up by 14.8% year on year, or by 13.5% after adjusted for the non-comparable factors, accounting for 60% of the budgeted sum and registering a pace that is 1.4 percentage points faster year on year.

## 12. The central government allocated 1.288 billion RMB to support the development of animal husbandry

The data published by MOF on September 23 shows that the central government allocated 1.288 billion RMB to support the development of animal husbandry in 2015, 188 million RMB higher than that of last year with the same measurement. Among 1.288 billion RMB, 1.088 billion RMB is to support standardized breeding of livestock and poultry.

### III .MOF Events

1. On August 31, Assistant Finance Minister Dai Bohua met with Dennis Ho, the President of the Hong Kong Institute of Certified Public Accountants, and exchanged views on the reform and development of CPA profession in the Mainland and Hong Kong.

2. On September 1, Assistant Finance Minister Zou Jiayi met with Alexander Karrer, the Deputy State Secretary of the Federal Department of Finance of Switzerland, and exchanged views on the state of macro economy and G20-related topics.

3. On September 4 and 5, Finance Minister Lou Jiwei and Governor of the People's Bank of China Zhou Xiaochuan attended the G20 Finance Ministers and Central Bank Governors' Meeting in Ankara, Turkey. The Meeting discussed issues including the current state of global economy, growth framework, investment and infrastructure, international financial architecture, financial sector reform and international tax cooperation,

and published a communique.

4. On September 9, Vice Finance Minister Shi Yaobin visited the headquarters of the ADB, met with Takehiko Nakao, President of the ADB, and delivered a speech on "Strengthening China-ADB Cooperation and Deepening Win-Win Partnership".

5. On September 9 and 10, Vice Finance Minister Liu Kun attended the 20<sup>th</sup> Greater Mekong Subregion (GMS) Ministerial Conference and talked about the effective implementation of relevant GMS strategic plans and the greater connection between GMS program and "the Belt and Road" initiative.

6. On September 14, Assistant Finance Minister Xu Hongcai attended the Press Briefing of the State Council and explained the *Guidelines on Deepening the Reform of SOEs*.

7. On September 17, Finance Minister Lou Jiwei met with Mr. Jean-Pierre Raffarin, former French Prime Minister and Chairman of Foreign Affairs, Defense and Armed Forces Committee. The two sides exchanged views over global and European economy, and macro-economic policies and reform measures of China and France.

8. On September 18, Finance Minister Lou Jiwei attended the 3<sup>rd</sup> China-France High Level Economic and Financial Dialogue and delivered remarks in the strategic session and the session of “Macro-economy and Policy & Global Governance”.

9. On September 21, Finance Minister Lou Jiwei attended the 7<sup>th</sup> China-UK Economic and Financial Dialogue and delivered remarks in strategic cooperation session and the session of “Macro-economy and policy & G20”.

10. On September 21, Vice Finance Minister Shi Yaobin attended the 7<sup>th</sup> China-UK Economic and Financial Dialogue and Press Briefing to Chinese and foreign media.

## IV. Local Finance

### 1. Finance authorities of Shandong Province took multiple measures to ensure the well functioning of pension scheme

According to the news released by the Finance

Department of Shandong Province on August 31, since the launch of the pilot rural pension scheme, Shandong has taken multiple measures to ensure the well functioning of the scheme. (1) It stepped up the fiscal input. Since 2009, a total of 30 billion RMB has been raised for the pension scheme, growing at an annual rate of 23.1%. The pension benefits have also been raised for 4 years in a row since 2012. (2) It strengthened the management of funds. The provincial finance authorities intensified inspection, supervision and performance accountability, and exercised stringent financial management to ensure the safe and efficient use of funds. (3) It enhanced the capacity building. The provincial finance authorities have raised 310 million RMB, which will be used as incentives to enhance the capacity building of 123 county-level and 1857 township-level social security service providers.

### 2. Finance authorities of Shanxi Province took multi-pronged approaches to push forward government procurement of services

According to the news released by the Finance Department of Shanxi Province on September 2, it has taken three measures to push forward government procurement of services. (1) The Finance Department has worked with the General Department, Civil Affairs Department and Culture Department in introducing a host of policies and rules. (2) Under the stewardship of the provincial

government, and with the finance authorities taking the lead and supervision, auditing, civil affairs, industry and commerce administration and other authorities taking part, a cross-departmental coordinating mechanism has been set up to enhance the synergy and coordination among different competent departments. (3) Training programs have been organized to spell out the plan for the current and future work of government procurement of services, and to provide targeted training on the *Interim Measures for Government Procurement of Services in Shanxi Province*, budget management, specific procedures for conducting procurement and performance evaluation.

### 3. Finance Department of Beijing Municipality supports the development of “safe Beijing” through diversified investment mechanism

According to the news released by the Finance Department of Beijing Municipality on September 9, since the beginning of this year, in line with the important position of Capital Beijing as the national political center, the Finance Department of Beijing Municipality has regarded safety as the basic public service and public product provided with the support of public finance and taken various measures. Firstly, the Department formulated a blueprint to establish hazardous chemical information management system. Secondly, the Department identified major expenditures to support the elimination of

hidden risks of underground pipelines. Thirdly, the Department built up a network to establish a fund guarantee mechanism for volunteers at grass-root by allocating more fiscal resources to governments at lower level. Fourthly, the Department mobilized resources by innovating fund input methods to enhance the efficiency of hazard elimination. Fifthly, synergy has been formed to coordinate supervisions by different departments to ensure the safety fund be put in place.

### 4. Finance authorities of Guizhou Province serves enterprise development

According to the news released by the Finance Department of Guizhou Province on September 6, the finance authorities have taken a portfolio of policies in recent years to address difficulties of enterprises and help them get more competitive. Firstly, they enhanced funding support and allocated special industrial and hi-tech fund to develop industrial parks and emerging industries. Secondly, they addressed the financing bottlenecks and set up lending risk compensation mechanism by replacing subsidy with reward. Thirdly, they eased the burden on enterprises by cooperating with tax authorities to implement preferential tax policies for small and micro companies, such as the preferential VAT, business tax and corporate tax. Fourthly, they supported enterprises with government procurement. While annual government procurement budget

is formulated, a share of the budget will be designated to the procurement from SMEs. Fifthly, they engaged with enterprises to enable enterprises to get rid of difficulties. The finance authorities carried out studies and attended meetings to earnestly address the obstacles of enterprises.

### **5. Finance authorities of Luoyang City, Henan Province put into place an integrated digital platform to enable the smooth flow of data**

According to the news released by the Finance Department of Henan Province on September 16, Luoyang, as the pilot city, launched the online fiscal management program in the first half of 2010, and now has put into place an integrated digital platform to enable the smooth flow of data at provincial, city and county levels. (1) The Finance Bureau of Luoyang City has published the *Measures for the Application of IT in the Fiscal Management of Luoyang City*, defining the mandate and authority of maintaining and constructing IT system at city and county level governments. (2) Measures are taken to optimize resource allocation, strengthen information security, and prohibit the illegal connection of the system to external devices. (3) The responsibilities between the system administrators and technical service providers are delineated, and training programs targeted at technical personnel are conducted in a step-by-step manner.

### **6. Finance authorities of Yunnan Province prioritized the spending on education**

According to the news released by the Finance Department of Yunnan Province on September 17, the disbursement of dedicated funds for education has been accelerating in 2015 to boost the development of education in Yunnan. (1) With the involvement of both public and private schools, pre-school education resources are further expanded. (2) Efforts are committed to ensure that the compulsory education, particularly in the rural area, is well-funded, and to study the portability of education resources. (3) Steps are taken to expedite the establishment of a modern vocational education system, raise the grants to vocational students, build up the capacity of vocational schools, and encourage the partnership between schools and businesses. (4) A host of measures are adopted to enhance the quality of higher education, including improving grants to college students, requiring colleges to better serve local economic and social development, and strengthening debt management of colleges to prevent possible financial risks.

### **7. Finance authorities of Sichuan Province vigorously support the reform and development of SOEs**

According to the news released by the Finance Department of Sichuan Province on September 22, the finance authority has formulated policies

and enhanced funding guarantee to vigorously support the reform and development of SOEs. Firstly, enhancing fiscal inputs. 300 million RMB of special fund is allocated in 2015 to support the reform and development of SOEs owned by the provincial government. Secondly, establishing cost-sharing mechanism for the reform of SOEs owned by the provincial government. The total fiscal subsidy ratio should be reasonably decided in line with the funding demand of the reform and the size of provincial budget for the reform and development. Thirdly, helping address leftover problems of SOEs. 500 million RMB has been raised in 2015 for medical care payment of retired staff in SOEs with financial stress. Fourthly, enhancing management on the state-owned capital operation budget by improving state-owned capital operation budget formulation system, strengthening returns collection management and standardizing budget formulation and reporting procedure and budget expenditure management.

## 8. Finance authority of Hefei City, Anhui Province took measures to liquidize stock fiscal fund

According to the news released by the Finance Department of Anhui Province on September 24, in the province the finance authority of Hefei City took the lead in reforming stock fund management and took multiple measures to tackle problems and set up the long-term mechanism for stock fund management. Firstly, the binding mechanism for stock fund budget has been

established to comprehensively clean up the idle funds in running account and accumulated surplus, which except as otherwise with specified use should be all included in departmental budget. Secondly, the budget execution has been accelerated. The authority set up timetables for various categories of items to speed up program progress and clarify the deadline for application and payment of government procurement. Thirdly, carry-over and surplus fund have been liquidized by categories. The authority has cleaned up the carry-over and surplus fund of the general public budget and special transfer payment from governments at higher levels. Fourthly, the long-term fund management mechanism has been set up. The authority continues to make innovations to coordinate government budget system and gradually abolish the practice of earmarking special projects revenue for specified purpose.

## V. Remarks & Opinions

### 1. Xi Jinping: deepening reform by opening up further and raising the level of an open economy

President Xi Jinping said in his recent speech that promoting reform and development through



opening-up is essential for China's success in reform and development. Reform and opening-up are mutually reinforcing as each is indispensable for the other. It is imperative to uphold the basic state policy of opening-up, more proactively enforce this strategy, make Chinese economy more open, keep attracting foreign capital and technology, and improve the system for opening-up. By allowing reform and opening-up to reinforce each other, we can further invigorate and enliven the economy. The negative list system on market access is of great significance for allowing the market to play a decisive role in resource allocation and the government to better play its part, and fostering a law-based business environment and an open economic system. It is important to stick to the direction of socialist market economy reform. Steps should be taken to change government function while developing innovative governance, invigorate market while enhancing market regulation, ease and regulate market access, streamline and optimize administrative approval, strengthen and innovate market regulation, and foster a new mechanism for administering market access, a mechanism with well-regulated market and level playing field for businesses and clear and effective role of government. The government should give free rein to allow businesses to cope with the issues they can best handle and let market entities determine the matters outside the negative list in accordance with laws. The negative list system needs to be constantly improved by gleaning experience from pilot programs. China

will continue to attract foreign capital, protect the legitimate rights and interests of foreign investors, and provide better services to them. In the process of attracting foreign investment, it is important to place emphasis on introducing advanced technology, managerial expertise and high-caliber talents to help transform our growth pattern and improve the economic structure. The efforts to open up China further should be closely harmonized with key national strategies such as "the Belt and Road" initiative and be connected with domestic reform agenda. It is also important to actively participate in the setting of international economic and trade rules to ensure that the world economic order will move in a more just and reasonable direction.

## **2. Xi Jinping: China's economic development will maintain steady and relatively rapid**

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Recently, President Xi Jinping attended a welcome banquet jointly hosted by the government of Washington State and friendly groups of the US in Washington State, the US, and delivered a speech. Xi Jinping emphasized that China's economic development would maintain steady and relatively rapid. The first half of this year witnessed a growth of 7% in China's economy, and this growth rate remains one of the highest in the world. China's economy is under downward pressure. We will make overall arrangements to stabilize growth, promote reform, adjust structure, benefit people's livelihood and prevent risks,

plus strengthen and innovate macro regulation and control, so as to keep the economic growth at a medium-high speed. Currently, China is continuing to move forward its new type of industrialization, digitalization, urbanization and agricultural modernization. China has a high savings rate, a huge consumption potential, a hard-working population and a rising proportion of middle-income people. This creates an enormous space for the services sector and offers a big market with great potential. China will focus more on improving the quality and efficiency of economic growth and accelerating the shift of growth model and adjustment in economic structure. We will lay greater emphasis on innovation and consumption-driven growth. In this way, we will solve the problem of unbalanced, uncoordinated and unsustainable development and enable the China's economy to successfully transform itself and maintain strong momentum of growth. Recent abnormal ups and downs in China's stock market have caused wide concern. Stock prices fluctuate in accordance with their inherent laws. The Chinese government took steps to stabilize the market and contain panic in the stock market and thus avoided a systemic risk. Now, China's stock market has entered the phase of self-recovery and self-adjustment. On August 11, China moved to improve its RMB central parity quotation mechanism, giving the market a greater role in determining the exchange rate. Our efforts have achieved initial success in correcting the exchange rate deviation. Given the economic and financial situation at home

and abroad, there is no basis for continuous depreciation of the RMB. We will stick to the purpose of our reform to have the exchange rate decided by market supply and demand and allow the RMB to float both ways. We are against competitive depreciation or a currency war. We will not lower the RMB exchange rate to stimulate exports. To develop the capital market and improve the market-based pricing mechanism of the RMB exchange rate is the direction of our reform, which will not be changed by the recent fluctuation in the stock market or the foreign exchange market.

### 3. Li Keqiang: maintaining economic stability while confronting challenges

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Premier Li Keqiang said in his recent speech that the recent turbulence in international market has brought new uncertainties to the world economic recovery, exerted deeper impact on China's financial market and foreign trade, and ramped up pressure on China's economy. In the face of the complicated international environment and the deep-seated problems at home, it is imperative to progress while maintaining stability and continue to press ahead with structural reforms. We should not only see the positive signs in certain aspects, build up confidence and keep macro policies stable, but also confront the challenges head on, prepare for the rainy days, and take timely measures to address problems. It is critical to earnestly implement

the plans of the Central Committee of CPC and the State Council, adapt to the new normal of economy, keep focused on the No.1 priority of development, motivate both the central and local governments and continue with the proactive fiscal policies and prudent monetary policies. As the traditional engines of growth are waning, we should come up with more innovative measures for reform and opening-up, increase the supply of public goods and services, promote mass entrepreneurship and individual innovation, and boost the momentum of economic growth. Innovative investment and financing models such as the establishment of special funds, swap of local government debt for bonds, issuance of corporate bonds, and adjustment of the capital ratio in fixed asset investment projects can come a long way in enhancing the investment capacity of local government and enterprises, getting major public infrastructure projects off the ground, and boosting the development of central and western regions as well as impoverished areas. We also need to consider the new demands of consumers to introduce new policies that can promote consumption and benefit the people, and advance express delivery and other logistics industries to unleash the potential of consumption. We should speed up the international cooperation on production capacity for more win-win outcomes, upgrade the quality and efficiency of real economy, accelerate the depreciation of machinery, textile, light industry and automobile sectors, and increase the support to the investment in retrofitting the traditional

industries. To encourage business R&D, we need to improve the practice of super deduction of R&D expenses and revise the designation rules of high-tech enterprises. We will widen application of green, energy-saving and low-carbon products, and extend the “Internet+” to more industries to foster new areas of growth. Financial stability is crucial for economic stability. The recent improvement of the quotation regime of the RMB central parity rate is a reasonable move that aligns to the trend of international financial market, but the fundamentals are not in place for the continuous depreciation of the RMB, and the RMB exchange rate is able to stay stable at a reasonable equilibrium. We will continue to push forward financial sector reforms, maintain a reasonable abundance of liquidity, and step up the service capacity of financial sector for real economy. We will ensure the stable functioning of the financial market, improve relevant institutional development, and nurture an open, transparent, healthy and stable capital market. We will enhance risk management and make sure no regional and systemic risks would occur.

#### **4. Lou Jiwei: reform represents the largest potential of China's economy**

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Finance Minister Lou Jiwei said in his recent speech that although the slowdown of China's economy has raised the attention of foreign countries, China's economy has been running within the expected range. The next five years will be a painful period of structural adjustment

for China's economy. The Chinese government is vigorously pushing forward structural reform in line with the plan to keep the economic growth at roughly 7%. The Chinese government will not attach too much importance to short-term fluctuations on a quarterly basis; instead, it will focus on the priorities of the macro-economic policy. Since this year, the notable turbulence in global stock and financial market, the continuous currency depreciation of emerging markets, and the record low price of commodities including crude oil have brought new uncertainties to world economic recovery and ramped up pressure on China's economy. In addition, due to the impacts of economic slowdown, declined prices and structural tax reduction, the growth rate of fiscal revenue has also been kept at a low level, making the revenue and expenditure more uneven. At the current stage, China's economy is in the special stage of three difficulties at the same time, namely the shifted economic growth speed, the painful structural adjustment and digestion of previous stimulus policy. The structural imbalance rising from insufficient new and waning traditional momentum for growth is large, certain risk factors are prominent and the economy faces great downward pressure. However, the slowdown of China's economy should be viewed in a rational perspective. In the past, China achieved 9% and 10% growth rate by relying on stimulus policy. But such development is unsustainable and beyond the potential growth

rate, and led to excess production capacity and increased inventory. Therefore, measures should be taken to gradually absorb the excessive production capacity and to reduce inventories. This is not an easy adjustment process and will take several years. In the next five years, China's economy will be mainly driven by consumption instead of investment and export. Furthermore, China's economic cycle is different from others. After the outbreak of international financial crisis, the majority of advanced countries started to de-leverage. On the contrary, China increased leverage in 2009 and 2010, which realized an economic growth rate of about 10%, and made China's economy contribute more than 50% to the world economic growth. Now, China enters the deleveraging stage and the economic growth rate will drop to about 7%. Despite of this, China's economy still contributes nearly 30% to the world economic growth. In the next few months, domestic and international economic circumstance remains complicated and tolerates no optimism. In the face of evolving international and domestic economic landscape, the CPC Central Committee and the State Council have made decisions and overall plan to implement effective targeted control and discretionary adjustment in a bid to ensure sound economy. In this course, MOF will continue implementing proactive fiscal policy and make up the fiscal gap by increasing dividend payment of SOEs to keep moderate economic growth and support structural reform.