

## I. Policy Update

### 1. The State Council issued the circular on further improving the funding for compulsory education in urban and rural areas

On November 31, 2015, the State Council issued the circular on further improving the funding for compulsory education in urban and rural areas. (1) Students covered by the compulsory education scheme will be exempted from tuition and fees and get free textbooks; the boarders from poor families will be given living allowances. (2) The central government will set the unified benchmark for funding per student. (3) More resources will be put into the renovation, seismic retrofitting and expansion of school buildings and auxiliary facilities in rural areas. (4) The central government will continue to fund the salary of teachers covered by the compulsory education scheme in the central and western regions as well as in some parts of the eastern region; the provincial government will intensify the transfer payment made to the areas of weak financial resources in its jurisdiction.

### 2. The Central fiscal authorities lent

### strong support to the development of modern agriculture

According to the news released by the Ministry of Finance (MOF) on December 1, the central fiscal authorities have advanced the adjustment of agricultural industries, promoted the sustainable agricultural development and accelerated the modernization of agricultural sector in 2015. (1) Supporting the development of local food industry and leading industries with local advantages and promoting the development of the animal husbandry industry. Specifically, more efforts will be made to standardize the livestock and poultry farms, boost livestock farming on grass mountains and slopes in southern China and change the model of livestock farming. (2) Driving the scale-operation of agriculture by identifying it as the key area of spending, and extending more support to farmers' cooperatives, family farms and major crop growers.

### 3. The State Council published the circular on simplifying procedures to enable easier access to public services

On December 1, the State Council published the circular on simplifying procedures to enable easier access to public services. (1) Along with the endeavor of compiling the list of power and accountabilities in line with laws and regulations, the public service items will be sorted out to produce a catalogue that will be adjusted on a

dynamic basis. (2) The meaningless certification requirement and the cumbersome procedures will be abolished. (3) To the extent possible, the service procedures will be streamlined, the steps cut, the time shortened and the quality improved. (4) Information sharing and coordination among departments will be enhanced in a faster manner. (5) Online processing and inquiry will be promoted. (6) All regions and departments are required to put people's interests first and employ new ways to deliver better services to people.

#### **4. MOF issued the circular on providing state financial aids to university students enlisted as non-commissioned offices (NCOs)**

On December 2, MOF issued the circular on providing state financial aids to university students enlisted as non-commissioned offices (NCOs). (1) Starting from 2015, university students enlisted as NCOs will be given state financial aids as one-off reimbursement of their tuition or repayment of their student loans during college years. Each undergraduate student could receive up to 8000 RMB per year and each postgraduate student could get up to 12000 RMB per year of such aids which will all be provided by the central public finance. (2) The eligible period for receiving such aids will be calculated according to the length of schooling of undergraduate, junior college (vocational high school), postgraduate and second bachelor's degree studies as determined by the state.

#### **5. MOF published the circular on the work of departmental final accounts in 2015**

On December 2, MOF published the circular on the work of departmental final accounts in 2015. (1) The central departments should submit their summary final accounts and their assessment and analysis report to the Budget Department of MOF for review by March 20, 2015. (2) The central departments should also submit to MOF their performance evaluation briefs along with their final accounts. (3) The central departments should urge their affiliated budget units to cooperate with the local inspector's offices of MOF in checking their final accounts. (4) The local fiscal authorities should finish the review and aggregation of departmental final accounts by April 20, 2016, and bring the summary departmental final accounts, explanatory notes and analysis reports when attending the Joint Review of Local Department Final Accounts organized by the Treasury Department of MOF.

#### **6. The State Council decided to further enhance financial guarantee for urban and rural compulsory education in 2016**

On December 7, the State Council announced measures to enhance financial guarantee for urban and rural compulsory education in 2016. First, a universal subsidy is to be provided to offer students free textbooks and exemption of

tuition and miscellaneous fees. Living allowance is to be provided to boarding students from financially challenged families. Second, a unified standard for public spending on rural and urban compulsory education is to be established. The central government is to set a baseline for public spending per student in compulsory education, and to provide above-baseline subsidies for compulsory schools. Third, the long-term safeguard mechanism for school buildings is to be improved. Efforts are taken to support renovation of rural compulsory schools, to strengthen their resilience against earthquakes, and to expand the campus and ancillary facilities. Fourth, salaries for teachers in compulsory educations are to be ensured. The central government is to provide further financial support to ensure teachers' salaries in compulsory education.

### **7. China is to adjust import tariff and export duties starting from January 1, 2016**

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According to the news released on December 9 by MOF, China's tariff for certain goods is to be adjusted starting from January 1, 2016. First, the imports of advanced equipment, key parts and energy raw materials with strong domestic demands are further encouraged. The provisional tax rates are reduced for traction converters of high-speed electric locomotive and images capture module products for video cameras. Second, the scope of lower tariff is expanded to cover more daily consumer goods. The provisional tariff

is reduced for imported travel suitcase, bags, clothing, scarves, blankets and other consumer goods. Third, tariff for automatic winder and some other goods is adjusted. The export duties on phosphoric acid, ammonia and ammonia water are exempted. Lower duties are applied to cast iron and billet steel. Fourth, based on the FTA arrangements between China and Iceland, Switzerland, Costa Rica, Peru, New Zealand as well as the Closer Economic Partnership Arrangement between the Mainland and Hong Kong and Macao, the tariff is further reduced. Meanwhile, the tariff rates for 27 environmental goods are lowered to 5%, which mainly cover sludge dryer, garbage incinerators, solar water heaters, and wind turbines.

### **8. The Central Committee of the CPC and the State Council announced measures to fight poverty**

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On December 9, the Central Committee of the CPC and the State Council announced measures to fight poverty. First, increase input to the training of labor export, and coordinate the use of various training resources. Second, ensure poor population's access to basic health services. Third, improve subsistence allowances for rural population, and provide policy guarantee for families without employment. Fourth, improve the compensation mechanism for telecommunications service to accelerate universal broadband coverage in rural areas. Fifth, the government is to play a leading role in poverty alleviation and

development by actively opening up new funding channels and ensuring public inputs are in accordance with poverty alleviation targets. Sixth, commercial, policy, development, and cooperative financial institutions are encouraged to increase financial support for poverty alleviation and development.

### **9. The Executive Meeting of the State Council adopted measures to enhance performance and efficiency of central enterprises**

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On December 9, during the Executive Meeting of the State Council chaired by Premier Li Keqiang, measures were adopted to enhance performance and efficiency of central enterprises. First, encourage innovation based on market demand to improve supply and efficiency. Enterprises are encouraged to forge specialized strength. Efforts are to be taken to facilitate in-depth cooperation between advantageous enterprises and central R&D institutions. Second, strengthen differentiated guidance, impose closure, merger or restructure on enterprises that fall short of national standards on energy intensity, environmental protection, quality, safety or suffer loss and excess capacity for a long time. Third, support the enterprises to promote management efficiency. A campaign which emphasizes cost-control and efficiency is to be launched to clean up inventory and receivables, and to reduce non-productive expenditure. Fourth, accelerate the mixed ownership reform and strip social functions

off enterprises. Fifth, provide policy support for innovation, and urge commercial banks to settle non-performing assets to handle bad debts from industries with overcapacity.

### **10. MOF issued *the Management Measures for the Supplementary Grants for Special Education***

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On December 10, MOF issued *the Management Measures for the Supplementary Grants for Special Education*, which provides the following. First, the fund of supplementary grants is established by the central government. Second, the fund is jointly managed by MOF and the Ministry of Education (MOE). Third, the fund is to support special education schools nationwide and compulsory schools with large enrollment of disabled students. Fourth, the fund is allocated to provincial fiscal authorities in factor method, and to be used jointly by provincial educational authorities. Fifth, the fund expenditure is to be managed in line with relevant provisions of centralized treasury. Sixth, MOF and MOE are to set policy goals for the fund. Seventh, the surplus balance of the fund is to be used by the county-level fiscal authorities according to relevant regulations. Eighth, MOF and MOE are to carry out supervision and performance evaluation on the fund management in a timely manner. Ninth, local fiscal authorities at various levels are to disclose relevant information of the fund according to budget disclosure requirements.

## **11. MOF issued the *Interim Measures for the Management of Governmental Investment Funds***

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On December 10, MOF issued the *Interim Measures for the Management of Governmental Investment Funds*, which provides the following. First, there should be no duplicate establishment of funds within the same industry or field. Second, fiscal authorities at various levels should establish investment funds to support innovative entrepreneurship and SMEs development. Third, the funds may take various organizational forms such as corporate structure, limited partnership or contract. Fourth, during the operation, the funds should not engage in guarantee business (other than secured financing guarantees), mortgages, entrusted loans, or taking various forms of deposits, or invest in the secondary market stocks or futures. Fifth, Sound internal control and external supervision system as well as investment decision-making and risk control mechanism should be established for the funds. Sixth, the funds should be managed under the trusteeship of commercial banks based in China.

## **12. Tariff cut of China-Korea FTA and China-Australia FTA will formally commence on December 20**

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According to the news published by MOF on December 11, China-Korea FTA and China-Australia FTA will start the first round of tariff cut on December 20, 2015 and a further round of cut on January 1, 2016. Under the China-Korea FTA,

by January 1, 2016, China will eliminate tariff on 20% of tax items, including some electronic products, chemicals and minerals; Korea will remove tariffs on 50% of tax items, including electrical products, iron and steel products and chemicals. Under China-Australia FTA, by January 1, 2016, 29.2% of tax items to China will be tariff free, including pharmaceuticals, medical equipments, boards, chemicals, agricultural machineries and ships; upon the entry into force of the FTA, 45% of tax items to Australia will enjoy zero tariff, and added with the existing tariff-free goods, the figure will rise further to over 90%.

## **13. State financial support will be extended to help compensate the bank credit risks associated with the commercialization of scientific and technological findings**

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According to the news released by MOF on December 14, MOF and the Ministry of Science and Technology will soon provide state financial support to help compensate the bank credit risks associated with the commercialization of scientific and technological findings. The purpose is to encourage banking financial institutions to scale up their lending to the commercialization of scientific and technological findings by SMEs.

## **14. MOF published the circular on implementing the pilot program on**

## the personal income tax policy of commercial health insurance

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On December 14, MOF published the circular on implementing the pilot program on the personal income tax policy of commercial health insurance. (1) The program covers the insured taxpayers who are aged over 16 but yet to reach the statutory retirement age. (2) The medical insurance coverage includes the out-of-pocket expenses under the medical insurance scheme and the expenses uncovered by the medical insurance scheme. (3) The insurance amount of the same health insurance product can vary according to the different conditions of the insured. (4) As the health insurance products do not seek maximum profits, if the simple loss ratio of medical insurance is lower than the prescribed ratio, the insurer shall return the balance between the actual loss ratio and the prescribed ratio back to the individual account of the insured.

## 15. MOF issued the circular on the auditing of the 2015 annual reports of listing companies

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On December 15, MOF issued the circular on the auditing of the 2015 annual reports of listing companies. (1) Strengthening quality control. All the auditing firms shall enhance their quality control system, intensify efforts to forestall and contain auditing risks, and cultivate quality-oriented internal culture. (2) Conducting the auditing of financial statements in a rigorous way. All the

auditing firms shall keep pace with the latest development of Accounting Standards for Business Enterprises (ASBE) and follow the instructions in the interpretations to the auditing standards; closely monitor the high-risk areas, such as the recognition and measurement of income, related party relationships and the relevant transaction and asset impairment; stay vigilant against the case where public companies exploit the changes of accounting standards to misrepresent earlier accounting errors as changes in accounting policies. (3) Ensure sound internal control and auditing. All the auditing firms shall properly handle the relationship among consultancy service on internal control, evaluation service and internal control and auditing service to ensure the independence of the internal control and auditing business.

## 16. MOF issued the 2015 Financial and Final Account Statement for Enterprises

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On December 17, MOF issued the 2015 Financial and Final Account Statement for Enterprises. (1) Relevant standards shall be strictly followed in the process of preparing the financial statements of enterprises, and parent companies, in addition to their own financial statements, shall also compile the consolidated financial statement of the corporate group. (2) Overseas enterprises shall, in accordance with ASBE 19-Foreign Currency Translation, perform foreign currency translation by using RMB as reporting currency and keeping accounting records in RMB. (3) The

reporting of the final accounts of collectively-owned factories shall be done by the SOEs that own them. (4) Central government departments, centrally-managed enterprises and the finance departments (or bureaus) of each province (district and city) shall define their division of labor and strive to finish the work of final accounts by the end of April, 2016. (5) Central government departments, centrally-managed enterprises and the finance departments (or bureaus) of each province (district and city), when preparing their final accounts, shall strictly follow the format and requirements set out in this circular, which are not allowed to be freely altered or modified.

## **17. MOF issued a circular on tax policies for mutually recognized funds between the mainland and Hong Kong**

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On December 21, MOF issued a circular on tax policies for mutually recognized funds between the mainland and Hong Kong, which provides the following. First, when mainland investors acquire income from mutually recognized fund allocation in Hong Kong, the income is to be included in the investors' total revenue and subject to corporate income tax. Second, when Hong Kong investors acquire income through the transfer of mutually recognized fund shares in the mainland, the income is temporarily exempted from income tax. Third, when Hong Kong investors acquire income through the sales of mutually recognized fund shares in the

mainland, the income is temporarily exempted from business tax. Fourth, when mainland investors acquire income through the sales of mutually recognized fund shares in Hong Kong, the income is temporarily exempted from business tax based on the current policy. Fifth, when Hong Kong investors acquire mutually recognized funds in mainland through sales, inheritance or grants, the transaction is exempted from stamp duty in accordance with current tax regulations in the mainland. Sixth, when mainland investors acquire mutually recognized funds in Hong Kong through sales, inheritance or grants, the transaction is subject to stamp duty in accordance with tax laws of the HKSAR.

## **18. MOF issued guidance to strengthen internal control on local fiscal authorities**

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On December 21, MOF issued guidance to strengthen internal control on local fiscal authorities, which provides the following. First, the internal control is to focus on fiscal policy design, budget management and other key processes. Second, the check and balance mechanism is to be established in the budget management, fund allocation and other key areas, so as to ensure sound decision-making, budget implementation and supervision. Third, the matching of rights and responsibilities is to be improved for fiscal authorities, so the exercise of administrative powers could be consistent with responsibilities. Meanwhile, fiscal authorities at all levels are required to design

internal control plans in accordance with the 13th Five-Year Plan. Local agencies are encouraged to explore differentiated arrangements according to local conditions, in an effort to encourage innovation and development.

### **19. MOF issued a circular on the 2016 budget plan for state-owned capital expenditure for centrally-owned cultural enterprises**

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On December 22, MOF issued a circular on the 2016 budget plan for state-owned capital expenditure for centrally-owned cultural enterprises, which provides the following. First, the budget plan is to support mergers and acquisitions of enterprises and the deepening of corporate reforms. Regional restrictions should be broken to support restructuring and M&A between enterprises of similar business scopes. Second, integration of innovation and technology is encouraged. Efforts are to be taken to promote the transformation and upgrading of the publishing, film and television production, theatrical performances and other traditional cultural industries. Advanced technology should be applied to foster new cultural industries. Third, the budget plan is to facilitate “go global” of cultural businesses. Centrally-owned cultural enterprises which are competitive with brand and management advantages are encouraged to set up businesses or acquire business ownership, control or management rights abroad. Cooperation with foreign cultural organizations should be

strengthened to build international marketing networks, in a bid to expand international market for domestic cultural products and services.

### **20. MOF issued *Management Measures for Subsidies for Water Conservancy Facilities and Soil Conservation***

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On December 22, MOF issued *Management Measures for Subsidies for Water Conservancy Facilities and Soil Conservation*, which provides the following. First, the subsidies budget is to be arranged by MOF based on consultation with the Ministry of Water Resources(MWR). Second, MOF and MWR are to carry out performance evaluation on the use of subsidies. Third, the subsidies should be used on the development of farmland water conservancy facilities, water and soil conservation projects, and repair and maintenance of water conservancy facilities. Fourth, the subsidies are allocated based on relevant factors. Fixed subsidies are to be arranged for priority projects approved by the Central Committee of the CPC and the State Council as well as for municipalities with light load of water conservancy construction tasks. Fifth, the subsidy funds can take various forms, including advance payment by local authorities, awards for grants, self-funding by villagers, or PPP project funds. Sixth, the provinces should gradually establish a competition mechanism for project approval, which is to ensure coordinated investment and showcase effect. Seventh, the fund is to be allocated in accordance with relevant



provisions of the centralized treasury payment system.

## **21. MOF issued guidance on improving funding mechanisms for secondary vocational schools**

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On December 23, MOF issued guidance on improving funding mechanisms for secondary vocational schools, which provides the following. First, the provincial fiscal, education, human resources and social security authorities should work jointly to improve the mechanism of funding per student for vocational schools. Second, the provincial education, human resources and social security, and fiscal authorities should further coordinate education resources in the region to optimize the layout of vocational schools. Third, all localities should actively promote the transformation of educational philosophy in vocational schools. Schools should promote training reforms and actively explore school-enterprise cooperation mechanism. Fourth, all localities should explore the establishment of performance evaluation mechanism for the use of vocational education funds and design relevant management measures. Fifth, all localities should give full play to modern information technology, and strengthen management of basic information to ensure data accuracy such as the student number.

## **22. The Executive Meeting of the State Council made plans to promote**

## **coordinated development of the primary, secondary and tertiary industries in rural areas**

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On December 23, during the Executive Meeting of the State Council chaired by Premier Li Keqiang, plans were made to promote coordinated development of the primary, secondary and tertiary industries in rural areas. First, local governments are encouraged to explore diversified development plans based on local conditions. Second, college graduates and returned expatriates are encouraged to set up cooperatives and family farms, and help farmers to start various businesses of appropriate size. Third, policy incentives are given to leading enterprises which support agricultural and rural development. Fourth, central fiscal budget is to give targeted support for the coordinated development in rural areas.

## **23. MOF published the circular on regulating the functioning of the PPP Information Platform**

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On December 28, MOF published the circular on regulating the functioning of the PPP Information Platform. (1) Under the guidance of MOF, fiscal authorities at different levels of government will be authorized to enter information into the PPP project pipeline database, and are required to provide project status updates and upload data according to the operational procedures of PPP projects. (2) The information pertaining to the

consulting service providers, private capital and fiscal institutions involved in the projects of the pipeline shall be entered into the database, and the PPP Center of MOF and local fiscal authorities may add information where necessary.

(3) The disclosure and use of information shall be conducted in a well-regulated way. (4) Incentives and disincentives for the Information Platform will be created.

#### **24. MOF published the circular on enforcing the pilot program of universal telecom services**

On December 28, MOF published the circular on enforcing the pilot program of universal telecom services. (1) Local government will prepare and submit their implementation plan in line with the guidelines, and with the review and approval of the provincial (or district and city) communication administration, fiscal department (or bureau) and industry and information technology authorities, some of the submitted plans will be recommended to MIIT and MOF and selected on merit basis. (2) MIIT and MOF will determine the scope of the pilot program, make public the list of pilot regions and implementation plans, and disburse the fiscal subsidies. (3) MIIT and MOF will guide and supervise the open tendering made by the provincial (or district and city) communication administration and fiscal department (or bureau) for the implementing enterprises of the program. (4) Provincial (or district and

city) communication administration and fiscal department (or bureau) will work with the industry and information technology authorities in evaluating the performance of local programs and make public the evaluation results.

#### **25. Starting from January 1, 2016, Tianjin Municipality, Liaoning Province, Anhui Province, Fujian Province, Xiamen City and Sichuan Province will implement *the Policy of Tax Refund at Departure Ports on Purchased Goods for Foreign Visitors***

According to the news published by MOF on December 29, in accordance with *the Notice of MOF on Implementing the Policy of Tax Refund at Departure Ports on Purchased Goods for Foreign Visitors*, *the Notice of GAC on the Customs Supervision of Tax Refund at Departure Ports on Purchased Goods for Foreign Visitors* and *the Notice of SAT on Publishing the (Trial) Administrative Measures of Tax Refund at Departure Ports on Purchased Goods for Foreign Visitors*, Tianjin Municipality, Liaoning Province, Anhui Province, Fujian Province, Xiamen City and Sichuan Province will respectively conduct record-filing of their implementation plans to MOF, GAC and SAT. These plans will come into force starting from January 1, 2016.

#### **26. MOF, NDRC and SASAC jointly published the guideline on defining**

## the functions of SOEs and on classifying them

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On December 30, MOF, National Development and Reform Commission (NDRC) and State-owned Assets Supervision and Administration Commission (SASAC) jointly published the guideline on defining the functions of SOEs and on classifying them. (1) Classifying SOEs into two groups, commercial SOEs and public-interest SOEs. Commercial SOEs aim to boost the dynamism of state-owned economy, expand the functions of state capital, and maintain and enhance the value of state assets; public-interest SOEs seek to safeguard people's livelihood, serve the general public and deliver public goods and services. (2) Tailoring reform measures according to different types of SOEs. Commercial SOEs are required to let market force determine the allocation of resources, make efforts to adopt corporate and joint-stock system and accelerate the establishment of modern enterprise system; public-interest SOEs can take the form of sole state ownership and may also encourage the participation of non-SOEs through purchase of service, concession and entrustment. (3) Promoting SOE development based on the classification. Commercial SOEs shall optimize the resource allocation and continuously upgrade themselves; public-interest SOEs shall increase the input of state capital and improve the quality and efficiency of public service provision.

## II. Facts & Figures

### 1. China's manufacturing PMI in November was 49.6%

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The data published by the National Bureau of Statistics (NBS) on December 1 shows that China's manufacturing PMI in November was 49.6%, down by 0.2 percentage point month on month. In a breakdown of enterprises, PMI was 51.2% for large-sized ones, up by 0.2 percentage point month on month; 48.3% for medium-sized ones, down by 0.4 percentage point month on month; and 44.8% for small-sized ones, down by 1.8 percentage points month on month. In specific terms, the production index was 51.9%, down by 0.3 percentage point month on month; the new order index was 49.8%, down by 0.5 percentage point month on month; the employee index was 47.6%, down by 0.2 percentage point month on month; the raw material inventory index was 47.1%, down by 0.1 percentage point month on month.

### 2. China's lottery sales in October

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The data released by MOF on December 2 shows that nationwide lottery sales in October totaled

31.234 billion RMB, down by 1.467 billion RMB year on year, or 4.5%, among which, welfare lottery sales were 16.332 billion RMB, down by 1.417 billion RMB, or 8%; sports lottery sales were 14.902 billion RMB, down by 50 million RMB, or 0.3%. Cumulative nationwide lottery sales from January to October totaled 303.133 billion RMB, down by 8.974 billion RMB year on year, or 2.9%, among which, welfare lottery sales were 165.275 billion RMB, down by 2.906 billion RMB, or 1.7%; sports lottery sales were 137.858 billion RMB, down by 6.07 billion RMB, or 4.2%.

### 3. China's CPI rose by 1.5% in November

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According to the data released on December 9 by NBS, China's CPI rose by 1.5% in November. In breakdown, CPI in cities rose by 1.5%, while CPI in rural areas went up by 1.3%. Food prices rose by 2.3%, and non-food prices went up by 1.1%. Prices of consumer goods increased by 1.2%, while service prices went up by 2.1%. From January to November, the average national consumer price index rose by 1.4% over the same period of last year. In November, the national consumer price was on par with last month. The prices in cities and rural areas were flat, as were food and non-food prices. Prices of consumer goods remained constant, while service prices fell by 0.1%.

### 4. China's PPI fell by 5.9% in November

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According to the data released on December 9 by

NBS, China's producer prices in November were down by 0.5% compared with last month, or 5.9% decrease compared with the same period of last year. The purchaser prices decreased by 0.7% over last month, or a 6.9% drop over the same period of last year. From January to November, the average producer price index fell by 5.2% over last year while the purchaser prices fell by 6%. In breakdown, the prices for production materials dropped by 0.7% over last month, or down by 7.6% over last year; the prices for consumables fell by 0.1% over last month, or a decrease of 0.4% compared with last year.

### 5. China's retail sales of consumer goods in November went up by 11.2%

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The data published by NBS on December 12 shows that retail sales of consumer goods in November totaled 2.7937 trillion RMB, up by 11.2% year on year in nominal terms. Retail sales by major suppliers of consumer goods were 1.3503 trillion RMB, up by 8.8%. In the first 11 months, total retail sales of consumer goods amounted to 27.2296 trillion RMB, up by 10.6% year on year, among which, the retail sales by major suppliers of consumer goods were 12.6906 trillion RMB, up by 7.7%. In terms of the types of consumption, in November, catering revenues were 303.4 billion RMB, up by 11.5% year on year; retail sales of merchandise were 2.4903 trillion RMB, up by 11.1%. In the first 11 months, total catering revenues were 2.928 trillion RMB, up by 11.8% year on year; total retail sales of merchandise

were 24.3016 trillion RMB, up by 10.5%; the online retail sales were 3.4526 trillion RMB, up by 34.5% year on year, among which, the retail sales of physical goods were 2.8869 trillion RMB, up by 33%, and the retail sales of non-physical goods were 565.7 billion RMB, up by 42.9%.

## 6. China's fiscal revenue and expenditure in November

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The data released by MOF on December 14 shows that in November, revenue under China's general public budget was 1.1087 trillion RMB, up by 11.4% year on year, among which, revenue at the central government level was 524.4 billion RMB, up by 9.2%; revenue at the local government level was 584.3 billion RMB, up by 13.4%; tax receipt was 877.5 billion RMB, up by 8.4% year on year. In November, expenditure under China's general public budget was 1.6069 trillion RMB, up by 25.9% year on year, among which, expenditure at the central government level was 194.9 billion RMB, up by 30.6%; expenditure at the local government level was 1.412 trillion RMB, up by 25.3%. From January to November, under the national governmental fund, the cumulative budget revenue was 3.4205 trillion RMB, down by 1.2158 trillion RMB or 26.2%, and the cumulative budget expenditure was 3.2934 trillion RMB, down by 679.5 billion RMB or 17.1%.

## 7. Financial market performance in November

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According to data released by the People's Bank of China (PBOC) on December 21, China's bond market saw a total of 2.7 trillion yuan of bond issuance in November, an increase of 170.1% over the same period of last year, or 28% growth over the previous month. In breakdown, the issuance of treasury bonds was 247.28 billion yuan, local government bonds was 763.72 billion yuan, financial bonds was 267.53 billion yuan, corporate bonds was 793.51 billion yuan, credit asset-backed securities was 63.36 billion yuan, and inter-bank deposit certificates was 520.98 billion yuan. In November, the inter-bank bond market issuance totaled 2.5 trillion yuan, an increase of 167.8% over the same period of last year, or a growth of 24.3% over the previous month. Money market transaction amounted to 63.6 trillion yuan, an increase of 151.8% over the same period of last year, or 35% growth over the previous month. In breakdown terms, pledged repo turnover was 51.7 trillion yuan, an increase of 30.7% over the last month. Outright repo auction reached 3.2 trillion yuan, a growth of 51%. The turnover of inter-bank lending was 8.7 trillion yuan, up by 60.4% over the previous month.

## 8. The performance of Chinese SOEs from January to November

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The data published by MOF on December 25 shows that from January to November, the operating incomes of SOEs totaled 40.66316 trillion RMB, down by 6.1% year on year, among which, the figure for central SOEs was 24.42272

trillion RMB, down by 8% year on year, and the figure for local SOEs was 16.24044 trillion RMB, down by 2.9% year on year. The operating costs of SOEs totaled 39.61233 trillion RMB, down by 5.3% year on year, among which, the figure for central SOEs was 23.41245 trillion RMB, down by 7.5% year on year, and the figure for local SOEs was 16.19988 trillion RMB, down by 2% year on year. The profits of SOEs totaled 2.04247 trillion RMB, down by 9.5% year on year, among which, the figure for central SOEs was 1.46506 trillion RMB, down by 10.4% year on year, and the figure for local SOEs was 577.41 billion RMB, down by 7.3% year on year. The assets of SOEs totaled 117.85767 trillion RMB, up by 16.3% year on year; the liabilities totaled 78.30892 trillion RMB, up by 18.2% year on year; and the owner's equity totaled 39.54875 trillion RMB, up by 12.7% year on year.

### 9. The total profits of major industrial enterprises in China fell down by 1.9% year on year from January to November

The data published by NBS on December 27 shows that from January to November, the profits of major industrial enterprises in China totaled 5.53868 trillion RMB, down by 1.9% year on year, among which, the figure stood at 1.00861 trillion RMB for state-controlled ones, down by 23% year on year; 44.74 billion RMB for collectively owned ones, down by 2%; 3.71397 trillion RMB for joint-stock ones, down by 1.9%; 1.38168 trillion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, up by 0.6%; and

2.00863 trillion RMB for private ones, up by 5.3%. By the end of November, the assets of major industrial enterprises totaled 99.49005 trillion RMB, up by 7.1% year on year; the liabilities totaled 56.35962 trillion RMB, up by 5.3%; and the owner's equity totaled 43.13043 trillion RMB, up by 9.6%.

## III . MOF Events

1. On November 10, Assistant Finance Minister Zou Jiayi met with Jan Walliser, Vice President for the World Bank's Global Practices, and exchanged views on triangular cooperation, Investing in Africa Forum and China's use of the World Bank's DPL.

2. On December 2, Vice Finance Minister Shi Yaobin attended the ASEAN+3 Finance and Central Bank Deputies Meeting in Kuala Lumpur, Malaysia, and on the sidelines of the Meeting, had bilateral meetings with Indonesia, Thailand and Malaysia to exchange views on the long-term development of AMRO after its upgrading to an international organization.

3. On December 3, as witnessed by Vice Finance Minister Shi Yaobin, Finance Minister Nene signed the the Articles of Agreement of the AIIB in Johannesburg as the plenipotentiary of the South African government, making it the 55th signatory.

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4. On December 10, Vice Finance Minister Zhu Guangyao briefed the ambassadors of 28 EU member states posted at EU's mission to China on the Finance Track of the 2016 G20 summit, which is to be hosted in China, and took questions from the audience.

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5. On December 14 and 15, G20 Finance and Central Bank Deputies Meeting was held in Sanya, Hainan. The Meeting was co-chaired by Vice Finance Minister Zhu Guangyao and Yi Gang, Deputy Governor of PBOC. Finance Minister Lou Jiwei attended the opening ceremony and briefed on the G20 Finance Track priorities, proposed outcomes and work program in 2016.

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6. On December 16, the tenth China-EU Financial Dialogue was held in Beijing. The Dialogue was jointly chaired by Vice Finance Minister Shi Yaobin of China, and Director General Buti of the economic and financial affairs and Deputy Director General Baley Root of the financial

stability, financial services and capital markets union of the European Commission.

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7. During the tenth special meeting of the WTO ministerial meeting on December 17, a special session was held for Afghanistan's accession to WTO. Assistant Finance Minister Zou Jiayi attended the meeting and delivered a speech on behalf of the Chinese government, welcoming Afghanistan to become a new member of WTO.

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8. On December 25, the Articles of Agreement of the AIIB met the legal requirements for entry into force, signaling the formal establishment of the AIIB. Finance Minister Lou Jiwei answered the questions that were widely concerned by the public in a media interview.

## IV. Local Finance

**1. The efforts of the Finance Department of Yunnan Province in making the best use of the stock of fiscal**

## **funds have yielded positive outcomes**

According to the news released by the Finance Department of Yunnan Province on December 1, it has been taking multiple-pronged measures to ensure the policies of making the best use of the stock of fiscal funds are well implemented. (1) It issued relevant documents to provide policy guidance on the implementation work. (2) It accelerated the spending of those funds, pushed forward the budget execution and effectively controlled the increase of surplus and carryovers. (3) It made the progress of tapping such funds an important performance indicator which also serves as the basis for determining the allotment of transfer payment to sub-provincial areas. (4) It launched across-the-board special inspections on all the finance bureaus in Yunnan as well as 97 selected departments to spur the implementation efforts. (5) It moved to put in place a long-term mechanism to curb the size of the stock of fiscal funds by further refining budget preparation and improving the allocation of special funds.

## **2. The Finance Department of Chongqing Municipality took effective measures to streamline administration and delegate power**

According to the news released by the Finance Department of Chongqing Municipality on December 2, the fiscal authorities of Chongqing have been streamlining administration and delegating power to ensure public finance could

better stabilize growth, change growth model and boost employment. (1) The approval requirements for items that the market can best decide will be scrapped; and the approval authority for items that are more convenient to be handled locally will be delegated to the county or district fiscal authorities. (2) The approval authority for basic and earmarked funds will be devolved to counties and districts which will use the funds according to the municipal and local development plans, however, the local governments need to file records to the municipal government and be subject to the result-based performance management. (3) The framework for government procurement of services will be set up to allow the private sector to supply some parts of public services so as to save the efforts and resources of government and to unleash the vitality and creativity of the private sector. (4) An integrated and high-standard public service platform covering counties and districts, townships (streets) as well as villages (communities) will be created to provide one-stop approval services to people and to help change the functions of government.

## **3. Qinghai Province adopted *the Work Plan of Comprehensively Promoting Budget Performance (2016-2020)***

According to the news released on December 9 by the Finance Department of Qinghai Province, in order to enhance the effectiveness of fiscal funds, *the Work Plan of Comprehensively Promoting Budget Performance (2016-2020)*



was adopted, which provides the following. First, specific targets for budget performance are to be established. The budget performance objectives are to be used as precondition and constraint for budget implementation. Second, the comprehensive performance evaluation for departmental budget management is to be strengthened. Comprehensive budget re-assessment by fiscal authorities is to cover all primary budget agencies. Third, fiscal performance evaluation on the provincial, municipal and county level is to be further improved. Fourth, the scope of performance evaluation for earmarked funds is to be expanded. Fifth, efforts are to be made to build a scientific and applicable hierarchical evaluation system and dynamic evaluation index pool. Management data-bank and information exchange platform are to be established. Sixth, give full play to effective management of budget implementation. Efforts are to be made to establish dynamic evaluation, reporting, feedback and disclosure mechanism of budget performance.

#### **4. Guangdong Province will introduce measures to improve fiscal transfer to lower-level agencies**

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According to the news released on December 10 by the Finance Department of Guangdong Province, in order to deepen fiscal and tax reforms and establish a modern public finance system, measures will be implemented to improve fiscal payment to lower level agencies. First,

the transfer payment is to be restructured based on public agencies' administrative power and obligations. Second, the general transfer payments system is to emphasize broad coverage of basic social security and focus on featured incentives. Third, the current earmarked funds will be cleaned up and combined. Strict restrictions are to be imposed on new earmarked funds. The funds are to be gradually exit from competitive fields and regulations over those funds are to be strengthened. Matching funds requirements for municipal and county level agencies are to be gradually phased out. Fourth, allocation of transfer payment is to be standardized. Efforts are to be made to establish a linkage between transfer payment and urbanization of rural population. Allocation of general transfer payment is to be improved, while arrangement for earmarked funds is to be vigorously regulated. Fifth, budget disciplines are to be strengthened with prompt budget implementation and greater budget transparency. Governmental funds and the general budget funds are to be further coordinated. Sixth, the supervision and inspection is to be stepped up to improve the budget performance evaluation system.

#### **5. Fiscal authorities in Guangxi Zhuang Autonomous Region have been working to establish a fairer and more sustainable social security system**

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According to the news published by the Finance

Department of Guangxi Zhuang Autonomous Region on December 15, finance authorities in Guangxi have been working to establish a fairer and more sustainable social security system. (1) Reform the pension system of government agencies and public institutions and eliminate the “dual-track” pension system. (2) Cut the unemployment insurance premium rate from 3% to 2% and lower the maternity insurance premium rate to below 0.5%. (3) Raise the pension benefits to ensure all the people can share in the progress of reform and development. (4) Collaborate with relevant departments in unifying the policies pertaining to health insurance, the contribution standards as well as benefit policies in the four cities of the Beibu Gulf Economic Zone. (5) Improve the social security system and forestall the risks of the fund; strengthen the administration and collection of the pension of employees in enterprises and further improve the work injury insurance system and unemployment insurance system.

## 6. The Finance Department of Gansu Province has focused efforts on six areas to strengthen budget performance management

According to the news released by the Finance Department of Gansu on December 16, it has focused its efforts on six areas to strengthen budget performance management. (1) Put into place a framework of rules and measures. Nearly 20 measures were introduced, including

*the Measures for Administering the Provincial Budget Performance Targets in Gansu.* (2) Rationalize the institutional arrangement. The performance evaluation division was formally created to manage performance, and the budget department was explicitly designated as the unit accountable for budget performance management. (3) Highlight the reform priorities, including the reform of public institutions, fiscal system reform and the compilation of departmental budget. (4) Roll out the budget performance management program at both provincial and city (or county) levels. (5) Strengthen the evaluation of performance. The evaluation results will be important factors for allocating provincial and municipal transfer payment and subsidies to projects and serve as the basis for determining next year’s budget. (6) Make better use of the evaluation results, enhance budget constraints, feedback the evaluation results and hold the underperformers accountable.

## 7. Fiscal authorities in Yunnan Province improved earmarked funds management to enhance budget performance

According to the news released on December 23 by the Finance Department of Yunnan Province, *Interim Measures for Performance Management on Earmarked Transfer Payment* was issued recently, which provides the following. First, budget performance management is to cover the whole process of special transfer payments,

including establishment, allocation and distribution of the fund. Second, the budget performance management mechanism is jointly built by authorities at the provincial, municipal and county levels, with specified powers and responsibilities at each level. Third, after execution of the annual budget plans or completion of budget projects, relevant authorities and agencies should carry out self-assessment of the budget performance. Fourth, the results of performance management are to be linked with the establishment, assessment and removal of earmarked transfer payments. Fifth, relevant information of the earmarked funds should be disclosed in accordance with government transparency requirements and relevant authorities are to be held accountable.

## **8. Guangdong Province took multiple measures to regulate earmarked funds in the cities and counties**

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According to the news released on December 24 by the Finance Department of Guangdong Province, guidance was issued to enhance the management of municipal and county level earmarked fiscal funds in the province, which provides the following. First, the application for earmarked funds is subject to rigorous examination and the review process is to be optimized. Efforts are to be taken to improve project pools, three-year rolling budget and medium-term financial planning. Second, earmarked funds transferred from upper level

authorities should be allocated promptly. Self-maintained special funds should be allocated in a balanced manner. Liquidation and exit mechanisms should be established for the special funds. Third, special funds transferred from upper level should be used in compliance with relevant regulations with full arrangements of matching funds. Fourth, mechanisms should be established for the supervision and performance evaluation of the funds. Regulation and management is a priority. Fifth, there should be clear appointment of organizations and staff for the management of the funds. Incentives and disincentives should be designed to ensure recipient agencies' credibility and accountability.

## **9. During the period of the 12th Five-Year Plan, fiscal authorities of Chongqing Municipality strengthened the social security to ensure the benefits of development are shared by all**

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According to the news released by the Finance Bureau of Chongqing Municipality on December 29, during the period of the 12th Five-Year Plan, Chongqing fiscal authorities have introduced a series of policies to improve people's livelihood and ensure the benefits of development are shared by all. (1) Making the budget for social security fund more transparent. Chongqing took the lead in China in compiling the budget for social security fund and made it part of the government budget system. (2) Deepening the

health system reform. Chongqing made the drug price back to a rational level through subsidies, increased the fiscal support for basic public health services and created a reasonable compensation mechanism. (3) Reinforcing the foundation of social security. Chongqing reformed the social assistance and employment systems to make sure no one is lagging behind on the path towards an all-round moderately prosperous society; and with increasing standard of benefits, social security in Chongqing has evolved into an important safety net that enables more people to share the benefits of social development.

## 10. Anhui Province vigorously enforced the structural tax cut policies

According to the news released by the Finance Department of Anhui Province on December 30, since this year, fiscal authorities in Anhui have been earnestly exercising their roles and rigorously enforcing the preferential tax policies introduced by the central government. (1) Prioritizing the implementation of preferential tax policies. By the end of November, the province-wide tax cut has amounted to 4.93 billion RMB. The tax burden went down by 83% for general tax payers and 100% for small-scale tax payers. Coal businesses have seen their tax burden drop by 96 million RMB, or 15.4%. Small and micro businesses have enjoyed 1.23 billion RMB of VAT exemption, 948 million RMB of business tax exemption and 500 million RMB of income tax exemption. (2) Implementing the major measures

of structural tax cut. Anhui fiscal authorities have forwarded 51 policies of MOF and SAT on preferential tax treatment and promptly posted them on the websites; tax authorities have also changed their role, abolished the non-licensing approval requirements related to tax incentives, and focused more on inspection and supervision.

## V. Remarks & Opinions

### 1. Lou Jiwei: four priority areas of next year's supply-side structural reform

In his recent speech at the National Fiscal Work Conference, Finance Minister Lou Jiwei pointed out that in the context of the “New Normal”, there are supply-side, structural and institutional factors behind the existing problems of the Chinese economy, and as we work to properly expand aggregate demand, it is also important to intensify the supply-side structural reform, push forward structural adjustment, raise the total factor productivity, and shift the engine of economic growth. A string of reform measures are expected to be introduced next year in four priority areas. (1) Accelerating fiscal and tax reform. The division of duties and spending obligations among

central and local governments will be overhauled to properly increase the duties and spending obligations of the central government and improve the sharing of income; VAT reform will be rolled out and excise tax reform will be expedited; a modern budget system that is comprehensive, well-regulated, open and transparent will be put into place, budget performance management be advanced, and the stock of fiscal funds be more actively tapped. (2) Advancing the reform of financial system. A better state financial capital management system will be studied to move forward the reform of state-owned financial institutions; a multi-level and specialized system of financial institutions will be created; efforts will be doubled to promote inclusive finance and green finance and make it more accessible and affordable for farmers, agricultural sector, rural areas as well as small and micro businesses to obtain finance. (3) Moving forward SOEs reform. The modern enterprise system will be improved, SOEs will be stripped of public administration functions, and more focus will be put on managing capital; the landscape of the state-owned economy will undergo strategic adjustment to encourage merger and acquisition, to boost the development of mixed ownership and to enhance the efficiency of allocating and deploying state capital. (4) Expediting the reform of social security system. The plan for the top-level design of pension will be improved and the plan for the national pooling of employees' pension will be drawn up; the principle of actuarial balance will be upheld and a more transparent and easily understood system be

created; the incentive and disincentive mechanism where “the more you contribute, the more benefits you get” will be further refined; and a more sustainable and reasonable health insurance funding mechanism will be established.

## **2. Lou Jiwei: efforts are to be focused on key challenges on the road towards a comprehensive moderately prosperous society**

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In a recently speech, Finance Minister Lou Jiwei pointed out that the 13th Five-year Plan reviewed and adopted by the Fifth Plenary Session of the 18th Central Committee of the CPC is a guiding blueprint for the nation to achieve the first of the “two goals in one hundred years” and to build a moderately prosperous society. Minister Lou stressed that to complete the objectives and tasks identified by the Fifth Plenary Session, public finance is to play a better role, especially in tackling key challenges on the road towards a comprehensive moderately prosperous society. Fiscal authorities are to shoulder more responsibilities, take initiative in promoting structural reforms, and advocate the transformation of growth model and better growth quality. Fiscal resources are to focus on weak links of the national economy in order to achieve more coordinated and balanced growth. Fiscal officials should enhance risk awareness and the capacity to control risks, so as to maintain sound and stable economic performance. Fiscal authorities are to pay more attention to the

developments of domestic and foreign economic situation, improve decision-making mechanism to enable higher capacity to make sound policy decisions, especially in important areas. Officials are to consciously apply the philosophy of rule of law to deepen reform, promote growth and improve the quality of public administration and fiscal management. More efforts should be taken in learning and researching to better command the law of market economy, social development and the nature, so as to give better play to public finance as the foundation and an important pillar of the state governance.

### 3. Lou Jiwei: building a fairer and more sustainable social security system

In the recently published article of Finance Minister Lou Jiwei, he said that China's social security system has come a long way after years of efforts, but some deep-seated problems still exist in its design and functioning. (1) The existing system does not reflect the principle of actuarial balance and has poor financial sustainability. (2) The sharing of obligations among government, enterprises and individuals as well as between central and local governments is unreasonable. (3) The existing system is balkanized. According to *the Proposal of the Central Committee of CPC for the Formulation of the 13th Five-Year Plan for National Economic and Social Development*, it is important to address pension and health issues, improve the social assistance system, further

reform the social security system and strive to complete the reform tasks on schedule. On pension system reform: (1) improve the system of individual pension account of employees. (2) Realize the national pooling of the basic pension of employees. (3) Diversify the sources of capital of social security funds. (4) Raise the retirement age in a gradual way. On medical insurance system: (1) improve the funding mechanism of medical insurance and the mechanism of adjusting the reimbursement proportion. (2) Roll out the system of critical illness insurance for urban and rural residents. (3) Contain the increase of medical expenses via medical insurance. (4) Consolidate the basic medical insurance system. On social assistance system reform: (1) the coherence of social assistance policies will be improved, special assistance will no longer be only aimed at those covered by the Minimum Living Standard Guarantee Scheme (MLSGS), more differentiated assistance will be provided in light of the specific health, housing, employment and education conditions of the recipients, and poverty-reduction policy and MLSGS policy will be harmonized to cover the poor people to the extent possible. (2) Given the overlap of social assistance policies and the duplicate coverage on the same type and group of people by different programs, the social assistance system will be consolidated and categorized according to the type of difficulty faced by the recipients. (3) Establish and improve the measures for vetting the financial situation of applicants for assistance, and create a cross-department and multi-level mechanism for

verifying the household income of the applicants. (4) Determine the sharing of the spending obligations between central and local governments for providing basic living assistance, and allow them to oversee different assistance programs and shoulder different spending obligations so as to incentivize the central government to promote the equalization of basic public services and leverage the advantage of local governments in access to information. (5) Support philanthropic activities and encourage the participation of private sector in social assistance.

#### **4. Liu Kun: give full play to the Government Accounting Standards Board and work together to promote government accounting reform**

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In a recent speech, Vice Finance Minister Liu Kun pointed out that the establishment of the Government Accounting Standards Board is to form a strong coordination mechanism to ensure the smooth progress of the reform of government accounting. The board members and advisers should work conscientiously to promote the government accounting reforms. There are several observations: first, this is a task of high priority and requires great attention. The reform of government accounting is an important reform task decided by the Third Plenary Session of the 18th Central Committee of the CPC, and an important part of tax reform. The reform is a mission of great significance. Second, work synergy is required. Government accounting reform is a

systematic project and relates to a wide range of policies. The reform plan has specified main tasks such as establishing and improving government auditing system, establishing a sound government financial reporting system, etc. In addition, supporting measures are needed to ensure smooth transition from the current policies. Third, relevant mechanisms should be improved. As the board members are from different departments and agencies, a sound working mechanism is critical to ensure the orderly and efficient operation of the board. Relevant departments and agencies should strengthen coordination and cooperation, design unified working plans, and report promptly to the secretariat of the board. The working procedures of the board should be specified, including board meetings, regular meetings of the secretariat, appointment of speakers at the meetings, meeting discipline, etc, to ensure its quality and effectiveness. Technical support mechanisms should be improved. Hiring procedures for outside experts and government accounting consultants should be designed to give play to technical support experts.

#### **5. Liu Kun: taking innovative and result-oriented approach to the work of government procurement**

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According to the remarks of Vice Finance Minister Liu Kun at the National Government Procurement Work Conference, remarkable progress has been achieved in reforming the government procurement system since the 2013 Conference. The size of

procurement is rising, reaching 1.7 trillion RMB in 2014 and taking up 11.4% and 2.7% of national fiscal expenditure and GDP respectively; the structure of procurement is getting better as service procurement in 2014 registered 193.4 billion RMB and maintained 25% plus growth for 4 consecutive years; the legal framework is improving as *the Implementation Rules of the Government Procurement Law* was promulgated, which marks an important step in promoting law-based government procurement, and relevant regulations governing competitive consultation procurement and PPP project procurement were also successively introduced. As the Chinese economy enters the “New Normal”, the circumstances of

government procurement work have undergone profound changes and new requirements have emerged. To better implement the reform agenda, it is important to prioritize the following areas: (1) improving the procurement management chain and moving faster in fostering a robust legal framework for government procurement. (2) Ensuring the effectiveness of policy implementation and refining the policy system of government procurement. (3) Enhancing the performance of procurement and strengthening the procurement execution mechanism. (4) Innovating the supervision model of government procurement. (5) Working on international negotiation to create conditions for wider market opening.