

I. Policy Update

1. MOF issued a circular on stamp duty policy for financial leasing contracts

On December 31, 2015, the Ministry of Finance (MOF) issued a circular on stamp duty policy for financial leasing contracts. First, financial leasing contracts (including sale-leaseback financing contracts) are subject to 0.005% stamp duty on the total rent, under the tax item of loan contract. Second, in the sale-leaseback financing business, the contract for sale or repurchase of leased assets is exempt from stamp duty.

2. MOF issued *Interim Measures on the Management of the Special Funds Allocated by the Central Government to Support Public Cultural Service System at Local Levels*

On December 31, 2015, MOF issued *Interim Measures on the Management of the Special Funds Allocated by the Central Government to Support Public Cultural Service System at Local Levels*, which provides the following. First, the special funds are arranged to support basic public cultural service by local governments, and improve grass-root public cultural and sports facilities. Second, the special funds are composed of subsidies and incentive awards, the specific amount of which is to be determined by MOF based on the size of annual earmarked funds. Third, the funds are allocated based on production factors, including basic factors, business factors and financial factors. Fourth, when the funds are transferred to the provincial finance departments,

they have to be allocated to provincial agencies and finance authorities at municipal and county levels according to budget procedures within 30 days. Fifth, finance authorities at various levels should establish and improve the supervision and performance evaluation mechanism of the special funds in conjunction with other relevant departments.

3. MOF issued a circular on improving port construction fee collection

On January 4, MOF issued a circular on improving port construction fee collection, which provides the following. First, when the waterway inbound cargo undergoes lightering operation or direct transshipment after unloading from the storage yard, the port construction fee is collected only once in the whole process of water transport. Second, when domestic exported goods are loaded in non-open domestic ports in the upper reaches of Nanjing Yangtze River Bridge or other inland rivers, and is unloaded or transferred in open coastal ports or open ports in the lower reaches of the Nanjing Yangtze River Bridge, the port construction fee is collected at the unloading or transshipment port and reduced by half based on the current collection of standards. Third, when the cargo is loaded and unloaded at both open ports, the port construction fee is to be collected at the unloading port, and is subject to whichever the higher toll standards of the loading and unloading ports.

4. MOF issued the *No.8 Interpretation for the Enterprise Accounting Standard*

On January 4, MOF issued the *No.8 Interpretation for the Enterprise Accounting Standard*, which provides the following. First, when financial assets or financial liabilities are held as wealth management products, they should be properly classified in accordance with the *Guidelines of Financial Instruments Recognition Measurement*.

Second, when financial assets or financial liabilities are measured at fair value, their fair value should be determined in accordance with the relevant provisions of the *Fair Value Measurement Criteria*. Third, when financial assets are held as wealth management products, except for those measured at fair value and recorded in current profits and losses, they should be subject to impairment evaluation according to the *Guidelines of Financial Instruments Recognition Measurement*, and the amount of impairment loss should be determined and duly recorded in accounting.

5. The State Council issued guidance on promoting coordinated development of the primary, secondary and tertiary industries in rural areas

On January 5, the State Council issued guidance on promoting coordinated development of the primary, secondary and tertiary industries in rural areas. First, various industrial co-development models are encouraged in rural areas. Efforts are to be made to foster the new type of urbanization, speed up agricultural structural adjustment, extend agricultural industrial chain, expand multiple functions of agriculture, and develop new agricultural businesses. Second, multiple market players are encouraged to enter rural industries. Measures are to be taken to strengthen farmers' cooperatives and family farms, support leading enterprises to deliver showcase effects, amplify the advantages of integrated services by supply and marketing cooperatives, and encourage private investment. Third, interest and benefit coalition are to be established. Incentives are to be designed to support innovative contract farming, encourage the development of cooperative shares, strengthen industrial and commercial corporate social responsibility, and improve risk prevention mechanism. Fourth, multi-channel services are to be improved to support integration of rural industries. Government agencies are to build public service platforms, provide innovative

rural financial services, strengthen personnel and technological support to improve agricultural and rural infrastructure, and support integration and development of rural industries in poor areas. Fifth, the mechanism for promoting integrated growth of rural industries is to be improved. Measures are to be taken to enhance fiscal support, roll out pilot demonstration, and strengthen inter-agency collaboration.

6. MOF issued guidance on comprehensively enhancing internal control of administrative institutions

On January 7, MOF issued guidance on comprehensively enhancing internal control of administrative institutions. First, the institutions are to set up internal control system based on their actual situations, specify the overall operation processes and procedures, analyze potential risks, improve risk assessment mechanisms, and design risk coping strategies. Second, the institutions should delegate administrative power in line with specified responsibilities, posts and hierarchies, and design regular rotation mechanism, which is to form effective check and balance on the exercise of power, and ensure rigorous internal control. Third, based on the establishment and implementation of internal control, the institutions should actively carry out self-evaluation according to the requirements of the *Internal Control Guidelines*. Fourth, measures are to be taken to strengthen inspection and enhance accountability.

7. The central public finance stepped up support for the agricultural insurance for rice, wheat and corn in the major counties that grow such crops

According to the news released by MOF on January 8, MOF has recently issued a circular to step up support for the agricultural insurance for rice, wheat and corn in the major counties that

grow such crops. (1) Prior to the introduction of the policy, if the provincial subsidies as a percentage of premium exceed 25% (the standard threshold proportion), the central public finance will fund 50% of the subsidies that exceed the threshold. (2) If the provincial subsidies as a percentage of premium rise further and help reduce the fiscal burden of counties, the central public finance will also fund 50% of the costs that result in the lower subsidy expenses for counties.

8. MOF, GAC and SAT jointly published the *Interim Measures for the Exemption of Import Tax for Charitable Donations*

On January 8, MOF, the General Administration of Customs (GAC) and the State Administration of Taxation (SAT) jointly published the *Interim Measures for the Exemption of Import Tax for Charitable Donations*. (1) The donations made by overseas donors for charitable purposes are exempted from import duties and import VAT. (2) The recipients of donations shall apply to the customs authorities for tax exemption on the eligible donations, and the customs authorities shall review and approve the application according to rules and regulations. (3) If the donations are subject to special quota, registration and licensing requirement as prescribed by the state, the recipients shall apply to relevant authorities for the quota, registration and import license before the customs authorities permit the clearance. (4) Unless with the approval of the customs authorities, the tax-free import of donations shall not be transferred, mortgaged, pledged or used for other purposes.

9. MOF published the *Measures for the Administration of the Special Funds for Enhancing the Quality of Modern Vocational Education*

On January 11, MOF published the *Measures*

for the Administration of the Special Funds for Enhancing the Quality of Modern Vocational Education. (1) The targeted areas for the use of the special funds are determined by MOF and the Ministry of Education (MOE) according to the plan of the CPC Central Committee and the State Council as well as the priorities for vocational education development. (2) The special funds are mainly disbursed by the factor method. (3) The special funds are jointly administered by MOF and MOE. (4) Each year, MOF and MOE will inform the lower-level governments the budgeted sum of the special funds within 90 days after the approval of the central budget by the National People's Congress. (5) More efforts shall be put on the holistic administration of funds at provincial levels when provincial finance and education authorities allocate the special funds. (6) A robust internal management system and sound rules for fund management shall be put into place and budget execution shall be accelerated in accordance with relevant requirements of budget and treasury management. (7) Provincial finance and education authorities shall administer the funds in a holistic way and make rational allocation. (8) MOF and MOE will conduct inspection and performance evaluation when appropriate based on the use of the special funds in different localities.

10. MOF published the guidelines on subjecting local government debt to the prescribed limit

On January 11, MOF published the guidelines on subjecting local government debt to the prescribed limit. (1) Keeping the local government debt within the prescribed limit. It is important to determine a limit on total local government debt and set the sub-limits by regions. Local governments are required to borrow strictly within the limit and incorporate their debt into budget management. (2) Improving the risk prevention and control system. The risks of local government debt shall be comprehensively assessed and alerted, the risk diffusion and

contingency response system be established and the debt supervision and accountability system be improved. (3) Properly handling the stock of debt. The local governments shall earnestly fulfill their debt repayment obligations and properly handle the contingent liabilities according to the laws.

11. MOF published the *Guidelines on Further Regulating and Strengthening the State Asset Management in Public Institutions*

On January 14, MOF published the *Guidelines on Further Regulating and Strengthening the State Asset Management in Public Institutions*. (1) Further defining the mandates of finance authorities, competent authorities and public institutions and strengthening finance authorities' comprehensive management function and competent authorities' specific supervision function. (2) Emphasizing the role of public institutions as entities accountable for possessing and using state assets, calling for more efficient use and more regulated disposal of state assets, and specifying the requirements for better managing asset allocation, use and disposal. (3) Raising requirements concerning the management of public infrastructure, government reserve assets and natural resource assets as well as the enterprises affiliated to public institutions.

12. The State Council issued the *Plan for Promoting Inclusive Financial Development (2016-2020)*

On January 18, the State Council issued the *Plan for Promoting Inclusive Financial Development (2016-2020)*, which outlined the following. First, the financial system should be composed of diversified and broad-coverage institutions. Various types of banking institutions are encouraged to play an active role. The development of new institutions should be properly regulated. Insurance companies should tap into their advantages as safeguarding

institutions. Second, innovative financial products and services are encouraged. Incentives should be given to financial institutions in their innovation and technology upgrading, and using the Internet to enhance the development of inclusive finance. Third, financial infrastructure development is to be accelerated. Priority should be given to the development of rural payment system, inclusive financial credit information system, and inclusive financial data-banks. Fourth, policies are to play an important role in guidance and incentives. Efforts should be made to improve the monetary and credit policies, and apply differentiated incentives in financial supervision. Fiscal policy is to play its role with stronger local support.

13. The State Council issued guidance on promoting innovative development of processing trade

On January 19, the State Council issued guidance on promoting innovative development of processing trade, which provides the follow. First, enhance the division of labor and cooperation among industrial chains, in a bid to promote industrial integration and innovation. Second, maintain strength in traditional industries, and push forward the development of advanced manufacturing and emerging industries. The development of producer services should be emphasized, with coastal areas continuing to play a leading role. Third, promote the development of processing trade industry cluster and the establishment of processing trade industry transfer cooperation mechanisms. Key inland areas should be prepared to take over industrial transfers from coastal areas, and differentiated supporting policies should be designed. Fourth, cultivate overseas cooperation in processing trade, and improve international cooperation mechanisms. Industrial cooperation with countries along the Belt and Road should be deepened, and so should be the cooperation with African states. Fifth, deepen the reform in administrative examination

and approval system by adopting new and better regulatory approaches, accelerate the domestic sales facilitation, and speed up the optimization of special customs areas.

14. MOF issued a circular on the use of official card for the financial settlement of research programs delegated by the central finance authority

On January 20, MOF issued a circular on the use of official card for the financial settlement of research programs delegated by the central finance authority, which provides the following. First, the official card should be used to settle the expenses of research programs which belong to the *Mandatory Official Card Settlement Catalog for Central Budgetary Agencies*, and related small amount of material costs and testing laboratory fees. Second, relevant agencies should standardize the payment procedure of official card, and strictly follow the required procedures. Third, relevant agencies should delegate agent banks to exam the reimbursement of official card. Fourth, except for official expenses, the agencies should not be liable for personal spending incurred on the official card and related obligations entailed on the personal spending. Fifth, during the financial acceptance inspection for the research projects, the use of official card for financial settlement is one of the acceptance requirements.

15. MOF issued a circular on the incentives for the development of new energy vehicle charging facilities and broader use of new energy vehicles during the 13th Five-Year Plan Period

On January 20, MOF issued a circular on the incentives for the development of new energy vehicle charging facilities and broader use of new energy vehicles during the 13th Five-Year Plan

Period. First, Provinces (autonomous regions and municipalities) with broad market, rational polices and fair market access for new energy vehicles are eligible for the charging facility operation subsidies provided by the central finance authority. Second, the subsidies are lump-sum funds allocated from the central finance to local authorities in provinces (autonomous regions and municipalities), which are to make coordinated arrangement of the development of charging facilities and relevant operation. Third, the amount of subsidies is mainly determined by the number of new energy vehicles put into use in the provinces (autonomous regions and municipalities). Fourth, the subsidies are earmarked for the construction, operation and upgrading of charging facilities and related field monitoring system, and should not be used for supplementing local finance or supporting the purchase and operation of new energy vehicles.

16. MOF issued the *Piloting Management Measures for the Agency Official Card*

On January 21, MOF issued the *Piloting Management Measures for the Agency Official Card*, which provides the following. First, the budget agency is to choose a bank within the scope of designated banks to be the issuing bank for the agency official card. Second, the official cardholders should be formal and permanent staff in the budget agency. Third, the credit ceiling of the official card is to be applied by the budget agency and examined by the issuing bank. Fourth, the budget agency is liable for the repayment in the official card. Fifth, the official card should only be used for official purposes. Personal expenses, installment, cashing or cash dividend return should not be incurred on the agency financial card. Sixth, both the agency and personal official card can be used to settle the business item within the mandatory settlement catalog. Seventh, the reimbursement of the agency official card is to go through the supporting system of the delegated bank, and is subject to dynamic monitoring of budget management.

17. MOF published a circular on adjusting the relevant matters on verifying and approving the eligibility of public-interest-purpose donations for pre-tax deduction

On January 22, MOF published the circular on adjusting the relevant matters on verifying and approving the eligibility of public-interest-purpose donations for pre-tax deduction. (1) The requirement for social organizations to submit application and relevant paperwork for pre-tax deduction of such donations will be scrapped. (2) MOF, SAT and the Ministry of Civil Affairs (MOCA) will jointly publish announcements to confirm the eligibility of qualified public-interest social organizations for pre-tax deduction. (3) The inspection and oversight will be intensified over the public-interest social organizations, so will be the penalty if they are found violating relevant rules and regulations. (4) Public finance, tax and civil affairs authorities at all levels of government shall strengthen collaboration and communication and set up a cross-agency coordination mechanism.

18. MOF published a circular on collecting the special funds for the structural adjustment of industrial enterprises

On January 22, MOF published a circular on collecting the special funds for the structural adjustment of industrial enterprises. (1) The special funds will be collected by the Inspector's Office of MOF in provinces and cities. (2) The special funds will be collected on a monthly basis and paid to the treasury. (3) The special funds will be transferred in full to the treasury, placed under the general public budget management, and catalogued as No. 103029999 "other special revenue" in the accounts of government revenue and expenditure. (4) No locality, unit and individual shall cut, waiver or delay the collection in contravention of this circular. (5) Those obliged to pay the special funds

shall pay in time in accordance with the provisions of this circular.

19. MOF published a circular on the business tax policy for employee-based domestic service providers

On January 26, MOF published a circular on the business tax policy for employee-based domestic service providers. The waiver of business tax under the *circular of MOF and SAT on the Waiver of Business Tax for Employee-based Domestic Service Providers* will remain valid from October 1, 2014 to December 31, 2018. The business taxes that should have been waived but still paid are allowed to be deducted from the tax payers' future payable business taxes, or refunded to the tax payers if these taxes are not yet fully deducted when the reform that replaces business tax with VAT is implemented.

20. The Executive Meeting of the State Council identified the measures of promoting financial services to upgrade the industrial sector

On January 28, the Executive Meeting of the State Council identified the measures of promoting financial services to upgrade the industrial sector. (1) Steering financial institutions to scale up credit supply to high-tech firms and manufacturers of key equipments and parts so as to nurture the new engine of growth. (2) Encouraging merger and acquisition financed by funds raised through M&A loans and issuance of preferred shares and convertible bonds so as to retrofit the conventional engine of growth. (3) Cutting and withholding loans to the firms that are perennially loss-making, insolvent, failing the environmental and production safety standards, and with outdated production capacity. (4) Expanding financing channels, promoting direct financing through stock and bond issuance,

and developing accounts receivable financing. (5) Continuing to crack down on the irregularities of financial service charging by rescinding or cutting unreasonable charges.

II. Facts & Figures

1. China's PMI stood at 49.7% in December 2015

According to the data released on January 1 by the National Bureau of Statistics (NBS), China's PMI in December 2015 was 49.7%, 0.1 percentage point higher over the previous month. In terms of various business sizes, PMI of large enterprises was 50.9%, a decline of 0.3 percentage point over last month; for medium enterprises, the PMI was 49.6%, an increase of 1.3 percentage points; and PMI of small businesses was 44.9%, up by 0.1 percentage point. In terms of sub-index, the production index was 52.2%, up by 0.3 percentage point; new orders index was 50.2%, increasing by 0.4 percentage point. Employment index was 47.4%, down by 0.2 percentage point; raw materials inventory index was 47.6%, an increase of 0.5 percentage point; and the supplier delivery time index was 50.7%.

2. China's lottery sales in November 2015

According to the data released on January 5 by MOF, the total lottery sales were 30.63 billion RMB in November 2015, 3.487 billion RMB less than the same period of last year, a decrease of 10.2%. In breakdown, the welfare lottery sales were 17.022 billion RMB, 1.205 billion RMB less than the same period of last year, down by

6.6%; the sports lottery sales were 13.608 billion RMB, decreasing by 2.282 billion RMB, a drop of 14.4%. From January to November, the total lottery sales were 333.764 billion RMB, 12.462 billion RMB less than the same period of last year, down by 3.6%. In the first 11 months, the welfare lottery sales were 182.298 billion RMB, decreasing by 4.11 billion RMB, a drop of 2.2%; the sports lottery sales were 151.466 billion RMB, decreasing by 8.352 billion RMB, down by 5.2%.

3. China's final verified GDP in 2014 is 63.591 trillion RMB

The data published by NBS on January 7 show that China's final verified GDP at current price in 2014 is 63.591 trillion RMB, down by 22.9 billion RMB compared with the initially verified figure, registering an increase of 7.3% over 2013 in constant price terms. In breakdown, the GDP for the primary industry is 5.8336 trillion RMB, up by 4.1% over 2013; 27.1764 trillion RMB for the secondary industry, up by 7.3% over 2013; and 30.581 trillion RMB for the tertiary industry, up by 7.8% over 2013.

4. China's CPI rose by 1.6% year on year in December 2015

The data published by NBS on January 9 show that China's CPI rose by 1.6% year on year in December 2015, among which, the CPI rose by 1.7% in urban areas and 1.5% in rural areas; 2.7% for food and 1.1% for non-food; 1.5% for consumer goods and 2.1% for services. Overall CPI in 2015 edged up by 1.4% over 2014. Nationwide consumption price level of residents in December also went up by 0.5% month on month, among which, the figure rose by 0.5% in both urban and rural areas; increased by 1.5% for food and stayed flat for non-food; went up by 0.7% for consumer goods and stayed flat for services.

5. 300 billion RMB of tax relief was offered to encourage entrepreneurship and innovation in 2015

According to the data released on January 18 by SAT, over 300 billion RMB of tax relief was provided in 2015 to support mass entrepreneurship and individual innovation. Throughout the year, near 100 billion RMB of tax cut was offered to small and micro enterprises and individual industrial and commercial households through raising the tax threshold, and cutting the corporate income tax by half for small firms. Over 140 billion RMB of high-tech related tax incentives was implemented. An additional 18 billion RMB of tax credit was provided to promote the employment of college graduates, the unemployed, the disabled, dependents of soldiers, dis-mobilized soldiers and retired soldiers.

6. China preliminary GDP figures for Q4 and 2015

According to the data released on January 20 by NBS, China's GDP for the fourth quarter of 2015 stood at 18.9372 trillion RMB, a year-on-year increase of 6.8%. In breakdown, the output of primary industry was 2.1965 trillion RMB, an increase of 4.1%; the secondary industry was 7.6405 trillion RMB, an increase of 6.1%; the tertiary industry was 9.1002 trillion RMB, an increase of 8.2%. The annual GDP for 2015 was 67.6708 trillion RMB, an increase of 6.9% over 2014. In breakdown, the primary industry was 6.0863 trillion RMB, an increase of 3.9% compared with 2014; the secondary industry was 27.4278 trillion RMB, an increase of 6.0%; the tertiary industry was 34.1567 trillion RMB, an increase of 8.3%.

7. China lottery sales in December 2015

According to the data released on January 21 by

MOF, a total of 34.121 billion RMB of lottery was sold in December 2015, down by 2.032 billion RMB, a year-on-year decrease of 5.6%. In breakdown, the welfare lottery sales were 19.214 billion RMB, 347 million RMB less compared with the same period of last year, down by 1.8%; sports lottery sales were 14.907 billion RMB, 1.685 billion RMB less than the same period of last year, a drop of 10.2%. Through the whole year of 2015, the total lottery sales were 367.884 billion RMB, down by 14.494 billion RMB, dropping by 3.8%. In breakdown, the welfare lottery sales were 201.511 billion RMB, contracting by 4.457 billion RMB, down by 2.2%; sports lottery sales were 166.373 billion RMB, 10.037 billion RMB less than last year, down by 5.7%.

8. The performance of Chinese SOEs in 2015

The data published by MOF on January 25 show that the operating income of SOEs totaled 45.47041 trillion RMB in 2015, down by 5.4% year on year, among which, the figure for central SOEs was 27.1694 trillion RMB, down by 7.5% year on year, and the figure for local SOEs was 18.30101 trillion RMB, down by 2.3% year on year. The operating costs of SOEs totaled 44.51961 trillion RMB, down by 4.8% year on year, among which, the figure for central SOEs was 26.24076 trillion RMB, down by 6.9% year on year, and the figure for local SOEs was 18.27885 trillion RMB, down by 1.6% year on year. The profits of SOEs totaled 2.30275 trillion RMB, down by 6.7% year on year, among which, the figure for central SOEs was 1.61489 trillion RMB, down by 5.6% year on year, and the figure for local SOEs was 687.86 billion RMB, down by 9.1% year on year. The payable tax of SOEs totaled 3.85987 trillion RMB, up by 2.9% year on year, among which, the figure for central SOEs was 2.97314 trillion RMB, up by 3.1% year on year, and the figure for local SOEs was

886.73 billion RMB, up by 2.1% year on year. As of the end of December 2015, the assets of SOEs totaled 119.20488 trillion RMB, up by 16.4% year on year; the liabilities totaled 79.06706 trillion RMB, up by 18.5% year on year; and the owners' equity totaled 40.13782 trillion RMB, up by 12.6% year on year.

9. The total profits of industrial enterprises above designated size in China fell by 2.3% year on year in 2015

The data published by NBS on January 27 show that the profits of industrial enterprises above designated size in China totaled 6.3554 trillion RMB in 2015, down by 2.3% over the last year; and the profits generated by their main business totaled 5.86402 trillion RMB, down by 4.5% over the last year. In a breakdown of the profits of the major industrial enterprises, the profits stood at 1.0944 trillion RMB for state-owned ones, down by 21.9% year on year; 50.75 billion RMB for collectively-owned ones, down by 2.7%; 4.29814 trillion RMB for joint-stock ones, down by 1.7%; 1.57261 trillion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, down by 1.5%; and 2.32216 trillion RMB for private ones, up by 3.7%. As of the end of 2015, the assets of industrial enterprises above designated size totaled 99.97411 trillion RMB, up by 6.9% over the last year; the liabilities totaled 56.15603 trillion RMB, up by 5.6%; and the owners' equity totaled 43.81808 trillion RMB, up by 8.8%.

III . MOF Events

1. On December 24-25, 2015, **Assistant Finance Minister Zou Jiayi** visited the BRIC Bank in Shanghai and met with President Kamath of the Bank and other senior management members. They exchanged views on the host country agreement, personnel arrangement, first projects and funding costs, member expansion, and institutional building.

2. On January 8, **Vice Finance Minister Shi Yaobin** met with Mr. Gupta, Vice President of the ADB, and exchanged views on China-ADB cooperation and the issuance of RMB bonds by the ADB in China.

3. On January 12, **Vice Finance Minister Zhu Guangyao** met with the visiting IMF delegation for the IMF Article IV middle session consultation. The two sides exchanged views on strengthening bilateral cooperation under the framework of the G20, China's macroeconomic situation and the current fiscal policy.

4. On January 13, **Vice Finance Minister Shi Yaobin** met with Peter Ong, Permanent Secretary of Singaporean Prime Minister's Office and the Ministry of Finance. The two sides exchanged views on China's economic situation, G20 and ASEAN+3 Macroeconomic Research Office (AMRO) related issues.

5. On January 14, **Assistant Finance Minister Dai Bohua** met with Ms. Bai Rong, the visiting CEO of the Association of Chartered Certified Accountants (ACCA).

6. During the opening ceremonies of the Asian Infrastructure Investment Bank (AIIB) on January 15-16, **Vice Finance Minister Shi Yaobin** met with the visiting British Deputy Secretary of the Treasury Mark Bowman, the Swedish Minister for Consumer Affairs and Deputy Minister of Finance in financial markets Pell Bu Longde, the New Zealand's Deputy Secretary of the Treasury Gabriel Makhlouf, and Michael Sarel, the Chief Economist of the Israeli Ministry of Finance.

7. During the opening ceremonies of the AIIB on January 16-17, **Finance Minister Lou Jiwei** met with UNIDO's Director-General Li Yong, Korean Deputy Prime Minister and Minister of Strategy and Finance Yoo Il-ho, Singaporean Finance Minister Heng Swee Keat, Indonesian Finance Minister Bambang Brodjonegoro, Pakistan Finance Minister Ishaq Dar, Nepal Finance Minister Bishnu Prasad Broder and Luxembourg Finance Minister Graham Menia.

8. The AIIB successfully held the inaugural meeting of the Council in Beijing on January 16-17. **Finance Minister Lou Jiwei** presided over the meeting as the chairman of the Board of Governors. **Vice Minister Shi Yaobin** delivered a speech as the Chinese alternate governor.

9. On January 16, **Vice Finance Minister Liu Kun** attended the Seminar on the Structural Reform Supported by Fiscal and Financial Policies, which was jointly hosted by the Finance Society and Finance Association of China, and delivered a keynote speech. **Assistant Finance Minister Dai Bohua** also delivered a speech.

10. On January 19-22, **Vice Finance Minister Shi Yaobin** visited Brunei and the Philippines, and had meetings with Mr. Abd Rahman Ibrahim, Minister at Prime Minister's Office and Finance

Minister II of Brunei, Mr. Nazmi, Permanent Secretary of the Finance Ministry of Brunei, Mr. Yusof Abd Rahman, Managing Director of the Monetary Authority of Brunei, Mr. Adi Marhain Leman, Deputy Managing Director of the Monetary Authority of Brunei, Mr. Roberto B. Tan, Deputy Finance Secretary and Treasurer of the Philippines, Ms. Edita Z. Tan, Assistant Finance Secretary of the Philippines, and Mr. Diwa C. Guinigundo, Deputy Governor of the Central Bank of the Philippines, to exchange views over the issues related to financial cooperation in East Asia, particularly the enhancement of the AMRO's capacity building.

IV. Local Finance

1. Guangdong Province steadily promoted the reform of zero-based budgeting

According to the news released on January 5 by the Finance Department of Guangdong Province, the *Implementation Rules for 2016 Provincial Zero-based Budgeting Reform* is issued to expand the piloting scope and improve the zero-based budgeting process. The implementation rules provides the following. First, 14 agencies are added to the piloting program, expanding the scope of zero-based budgeting reform to 20 budget agencies. Second, efforts are made to improve the financial expenditure standards for the payroll of government employees. Third, budget control for the agencies in the 2016 zero-based budgeting pilot program is to be verified. Fourth, the performance target mechanism is applied for all project application and verification. All the expenditure items in the 2016 zero-based budgeting program are to undergo the performance

targets identification and verification process before entering the project pool. Fifth, applicant projects are to undergo a rigorous feasibility study and examination process, and the budget is to be allocated based on local financial conditions and arranged in a priority order. Sixth, the zero-based budgeting reform is to be coordinated with the medium-term financial planning and the project pool reform. All project expenditures are to be included in the project pool management.

2. The Finance Department of Yunnan Province took five measures to improve budget management of the social security fund

According to the news released on January 7 by the Finance Department of Yunnan Province, the provincial finance authority has taken five measures to improve budget management of the social security fund. First, the Health and Family Planning Commission of Yunnan Province issued a *Circular on the Pilot Scheme of Three-year Rolling Budget for the Social Insurance Fund*, which specified the guidelines, basic principles, objectives, scope and requirements of the three-year rolling budget. Second, the budget preparation and reporting mechanism for the social security fund is to be led by the finance authority and joined by relevant agencies, which are to maintain communication and consultation. Third, a set of comprehensive, detailed and standardized evaluation guidelines is established for the budget management of the social security fund. Fourth, monthly analysis on the balance of the social security fund is to be carried out, and the implementation progress of the fund budget is to be reported. Fifth, the evaluation measures for budget management of the social security fund are designed and published, which are to link the assessment results with the allocation of supplementary fund for the budget management of the fund.

3. Gansu Province focused great efforts on consolidating the use of fiscal funds for poverty reduction

According to the news released by the Finance Department of Gansu Province on January 11, Gansu Province, in the year 2015, focused great efforts on building a long-term mechanism to consolidate the use of fiscal funds for poverty reduction. (1) The relevant provincial departments drafted plans for fund consolidation, made guidelines for project application, and set requirements for the direction and management of fund use; the county-level governments submitted their annual demand of project funds to the municipal governments for approval. (2) The relevant provincial departments guided the county-level governments in selecting project for application in accordance with sector plans and in using the funds according to specified purpose; the county-level governments used, in a consolidated way, all sorts of poverty reduction funds arranged by the provincial, municipal and county-level governments. (3) The provincial finance department would supervise the disbursement and reporting of funds; and the municipal governments would ask relevant agencies to enhance day-to-day oversight.

4. Qinghai Province has established a mechanism that covers the whole process from budgeting to implementation so as to revitalize the stock of fiscal funds

According to the news released by the Finance Department of Qinghai Province on January 12, Qinghai, in 2015, has established a mechanism that covers the whole process from budgeting to implementation so as to revitalize the stock of fiscal funds. (1) Accelerating the fiscal expenditure. A series of effective measures, e.g. improving the spending responsibility mechanism, qualifying and breaking down the monthly spending task, and making advance disbursement, have been adopted

to ensure the balanced and steady growth of fiscal expenditure. (2) Stepping up the recoup of the stock of fiscal funds. On the basis of the statistics of the stock of fiscal funds, all localities and government departments in Qinghai were urged to sort out and recoup the surplus and carryover funds. (3) Cleaning up the bank accounts of budget units. The Finance Department of Qinghai Province worked with the Xining Branch of the PBOC in comprehensively cleaning up the bank accounts of provincial departments. (4) Strengthening the performance evaluation and accountability. The areas and departments that open bank accounts in violation of regulations or fake the stock of fiscal funds would be held accountable. (5) Formulating budget in a scientific way. More efforts were put on improving the project pipeline, enhancing budget management, making budgeting more detailed and ensuring budget is in place at the beginning of the year.

12 5. Luoyang City of Henan Province implemented six mechanisms to enhance accreditation management of fiscal investment

According to the news released on January 18 by the Finance Department of Henan Province, the city of Luoyang implemented innovative fiscal management to enhance investment accreditation through early warning, auditing, pricing and information mechanisms. First, in order to raise assessment efficiency, pre-warning mechanism is introduced for overdue projects, so as to ensure early intervention and on-time completion. Second, the assessment procedure is rigorously practiced, which ensures four stage of auditing, i.e. trial assessment, review, inspection by deputy head, and final accreditation. Third, the price information section is established to collect monthly updated data, so as to meet the requirement of economic management. Fourth, special accreditation office is set up for projects under 500,000 RMB of investment, which is to simplify procedures with

designated personnel. Fifth, information platform is built on special website to improve assessment efficiency and exchange. Sixth, both the fiscal budget accreditation and auditing are put under the oversight mechanism.

6. Xiamen City promoted supply-side fiscal reform from four aspects

According to the news released on January 21 by the Finance Bureau of Xiamen City, the city implemented four measures to promote supply-side reform. First, industrial supporting funds were restructured to speed up commercialization of scientific and technological achievements, and encourage the use of robots in enterprises. Second, the VAT for business tax reform was actively implemented, innovative financial tools were used to lower financial costs for enterprises, and institutional mechanisms of FTA were improved. Third, innovative industrial supporting policies were adopted, including PPP models, municipal development funds, state-owned assets operation platforms, and government purchase of services. Fourth, measures were taken to improve the budget management system, including optimizing the municipal finance system, clarifying property rights and obligations, fiscal consolidation and revitalizing the stock of capital, strictly controlling administrative expenses, and streamlining and decentralizing the administrative power.

7. Finance authorities of Xinjiang Uygur Autonomous Region poised to adjust policies to better support the development of industries

According to the news released by the Finance Department of Xinjiang Uygur Autonomous Region on January 26, the finance authorities of Xinjiang will adjust policies to better support industry development. (1) Improving fiscal policies to better support industry development. Efforts will be put

on fostering the environment for the development of industries, and fiscal policies will be deployed to make financial capital and private capital more accessible for enterprises. (2) Studying the creation of a fund by government to guide industry development. In three years, the direct fiscal support to enterprises will all be converted into the fund to attract more private capital so as to spur the growth of enterprises. (3) Continuing to support the development of emerging industries of strategic importance. Private capital will be guided to support the development of emerging industries of strategic importance in Xinjiang, including the manufacturing of advanced equipments, new energy and new material. (4) Supporting the transformation and upgrading of conventional industries. The excess capacity will be digested while enterprises will be called on to cut energy consumption and enhance product quality.

8. Finance authorities of Shandong Province eased the access of SMEs to finance by promoting financing based on government procurement contract

According to the news released by the Finance Department of Shandong Province on January 28, the *Interim Measures for the Administration of Government Procurement Contract Financing in Shandong* was issued, which provided the following. (1) Finance authorities will create a platform of symmetric information that connects businesses and banks, but will not involve in the selection of financing institutions, nor will they provide third party guarantee to financing projects. (2) Collateral requirement will be scrapped and financing is readily accessible upon the obtainment of government procurement contract. (3) Preferential interest rate will be provided with the rate based on government procurement contract falling by over 10%. (4) Green lane will be established by financial institutions to approve government procurement contract financing, special staff will be manned to provide tailored services

and the approval procedures will be simplified. (5) E-operation and disclosure of information will be implemented throughout the procurement process to ensure that the contract is authentic and the contract number is unique.

V. Remarks & Opinions

1. President Xi Jinping: the AIIB is to effectively increase infrastructure investment in Asia and promote regional connectivity and economic integration

On January 16, Chinese President Xi Jinping attended the opening ceremony of the Asian Infrastructure Investment Bank in the Diaoyutai State Guesthouse in Beijing, and delivered a speech. President Xi pointed out that the AIIB will effectively increase investment in infrastructure, and enhance connectivity and economic integration in the Asian region. By improving the investment environment for developing countries in Asia, the Bank will create jobs, improve long-term development potential, and give a boost for economic growth in Asia and the world. The launch of the AIIB is of significant importance to the reform and improvement of the global economic system and governance. This initiative conforms to the trend of global economic architecture evolution, and nudges the global economic governance towards a fairer, more equitable and effective direction. We hoped member states could uphold the spirit of unity and cooperation, and actively increase input to the Bank, so the Bank can start operation as soon as possible. As the Bank grows bigger and stronger, it will add to the overall strength of

multilateral development banks, and make greater contribution to international development. The AIIB should pursue open regionalism, complement the existing multilateral development banks by adding new vitality with its advantages and features, and strive to build a professional and efficient financing platform for infrastructure investment. Given the huge infrastructure financing gap in Asia, the new and old organizations can cooperate and compete with each other to jointly promote infrastructure connectivity and sustainable economic development in Asia. The Bank should take into account the new trends in international development and the diverse needs of developing member countries, adopt innovative business models and financing instruments to assist member states in developing high-quality, low-cost infrastructure projects, thus becoming a bridge for South-South and North-South cooperation. The Bank should follow the models and principles of existing multilateral development banks, fully draw on their good experiences and practices, shy from pitfalls, and achieve high-quality operation from the beginning.

2. Lou Jiwei: the greatest potential of China's economy lies in reform

In his recent article, Finance Minister Lou Jiwei said that in the current and future stage, it is important to comprehensively implement the requirements of the Fifth Plenary of the CPC, shift the engine of growth from input of factors towards innovation, and provide institutional backing for enhancing productivity, maintaining medium-to-high growth rate and moving up the value chain. The specific tasks include: (1) deepen price reform and reduce government's interference in price formation to provide true and reliable price signals to market and investors and to give the basic guarantee for structural optimization and indigenous innovation. (2) Accelerate the market-based reform of factors of production, improve the modern system of property rights, and refine the

bankruptcy and exit mechanism of enterprises. (3) Expedite the SOE reform, build a modern enterprise system, strip SOEs of public administration functions, focus on the management of capital, and enhance the dynamism, competitiveness and influence of SOEs. (4) Move forward fiscal and tax reform, build a comprehensive, well-regulated, open, transparent and modern budget system, put in place a tax system with scientific design of tax types, optimal structure, sound legal framework, and fair and efficient administration, improve the match between government duties and spending obligations, and properly increase central government duties and spending obligations; deepen interest rate and foreign exchange rate reform. (5) Deepen social security system reform, advance the pension system reform, focus on improving the individual account and maintaining the actuarial balance, build an incentive and disincentive mechanism where the more you contribute, the more benefits you get, create a more transparent and easily understood collection and payment system, realize the national pooling of basic pension for employees, transfer state capital to the social security fund, develop the complementary pension, and foster a system that enables reasonable increase of basic pension and link it to the contribution of premiums. (6) Reform the health insurance system, build a sustainable funding mechanism with reasonable sharing of costs, study the policy of letting retired employees pay to the health insurance, establish a benefit adjustment mechanism that fits the level of funding, comprehensively enforce the critical illness insurance system for urban and rural residents, reform the health insurance payment method, consolidate the basic health insurance system, and build an orderly and tiered treatment system. (7) Speed up the household registration reform and enable agricultural population to work in non-farming sectors to raise labor productivity. (8) Advance the scientific and technological system reform, revamp the central government funding for scientific and technological schemes, build an open and unified national platform for

science and technology, and let government agencies stay out of directly managing specific projects. (9) Move forward land system reform, amend the regulations regarding the expropriation and compensation of houses built on state and collective owned land, and encourage the sale, lease and equity investment of rural collective construction land. (10) Accelerate the new-type of urbanization and agricultural modernization, develop compact cities in metropolitan areas, increase the intensity of cities, and promote the intensive use and conservation of land; create a system where fiscal transfer payment is linked to the urbanization of rural migrant population, and gradually turn the eligible rural migrant population into urban residents; push forward the agricultural modernization in parallel, reform and upgrade the agricultural subsidy policies, cut the excessive use of pesticides and chemical fertilizers, and reduce the distortion of the agricultural product market.

3. Lou Jiwei: improving fiscal policy and promoting institutional innovation to boost the new-energy vehicle sector

In his recent address, Finance Minister Lou Jiwei said that boosting the development of new energy vehicles is an important move to upgrade the automotive industry and part of the efforts of promoting green and innovation-driven growth. On one hand, subsidy policies need to be adjusted, and the mechanism for selecting the eligible subsidy recipients and for knocking out the unqualified recipients shall be created. The eligibility threshold for subsidies shall be raised to highlight the support to superior enterprises; and the subsidy standard also needs to be gradually lowered to force enterprises themselves to grow effectively in market competition. On the other hand, it is important to adhere to the market-oriented principle and establish a long-term mechanism for the development of new-energy vehicle industry. Over the past few years, MOF has been pushing forward the credit-trading

mechanism for new-energy vehicles, a system that is technically neutral, sustainable and combines incentives with disincentives. The major auto-producing countries have stepped up their R&D in new-energy vehicle technologies which encompass extensive areas such as material science, IT, control technology, manufacturing technique, equipment manufacturing and etc. In these areas, there is still large gap between domestic and foreign producers. As the technological weakness is increasingly evident, more resources shall be focused on scientific and technological research to strive for decisive progress in core technologies. To this end, supportive fiscal policies will be scaled up: resources will be directed to the areas that matter most; approaches of fiscal support provision will be innovated to maximize the leverage effect. Currently, the market environment of new-energy vehicles remains imperfect, constraining the development of this industry, and thus needs to be improved promptly. The central public finance authorities will study more targeted supportive policies to improve the soft environment pertaining to relevant systems and standards and shore up the hard infrastructure facilities for power charging, battery replacement and etc.

4. Jia Kang: why China needs supply-side reform today?

Recently, Dr. Jia Kang, the head of the Huaxia Research Institute of New Supply-side Economics, pointed out in an article that the underlying factors for economic growth, especially from the long-term perspective, lie in five main areas: labor, land and natural resources, capital, technology innovation and institutional arrangement. International experience shows that before an economy enters the middle-income stage, the contribution of the first three factors to the economy is more apparent. As a result, when an economy is in an early phase and the "take-off" phase of development, the so-called "factor inputs driven" growth model is usually emphasized, which is reflected as extensive

development. After an economy enters the middle-income stage, the latter two factors, i.e. technology and management innovation, are crucial and may deliver greater contribution. The "total factor productivity" is a catch phrase nowadays, and mainly refers to the contribution by the latter two factors. Therefore, the driving forces for China's economic growth in the new era, in fact, are the processes of industrialization, urbanization, marketization and internationalization, informatization, and democracy and the rule of law, which compose of the five factors of the supply-side. It is a hybrid driving system which requires improvement. There are obvious supply constraints and suppression for those factors in current China. Therefore, comprehensive reform is needed to resolve the constraints, especially for the latter two elements to play a bigger role and substitute for the contribution of the first three

factors. Such reform should give more play to market players, so as to enhance economic vitality. The so-called "supply-side structural reforms" and "total factor productivity enhancement" lie in the improvement of quality and efficiency of the supply system. China used to have "advantages" of a later comer, but now it needs to take proactive initiative to cultivate supply-side strength. While fully respecting the market as the decisive force in allocating resources, the government must combine the management of aggregate demand and structural supply. In particular, rational supply management is a crucial component and inherent requirement for the structural upgrading and sustainable development of China's economy during the 13th Five-Year Plan Period and beyond, and should be tightly integrated with the reform to ensure effective and systematic supply.