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HIGHLIGHTS

- Finance Minister Lou Jiwei: build consensus on structural reform and promote global economic growth
- On February 26, Finance Minister Lou Jiwei attended the G20 High-level Seminar on Structural Reform held in Shanghai
- MOF issued *Management Measures for the Earmarked Central Transfer Payments to Local Governments*
- MOF issued *Interim Measures for Central State-owned Capital Budget Management*
- China's fiscal balance in 2015

财政部亚太中心

China MOF Think Tank on International Economics



Brief Introduction to AFDC Beijing Office

Asia-Pacific Finance and Development Center Beijing Office (known as AFDC Beijing Office) is the think tank of the Ministry of Finance of China. It is devoted to financial and economic studies at home and abroad, and to the promotion of global and regional economic cooperation and integration.

The think tank provides policy recommendations to the top decision-makers of MOF and other government agencies of China. It communicates with other government agencies, international organizations, prestigious domestic and foreign think tanks, and other academic groups to strengthen knowledge cooperation, idea exchanges and experience sharing. It publishes research papers and organizes high-level forums and seminars.

AFDC Beijing Office is committed to be a world-class economic think tank.

Contents

- I . Policy Update
- II . Facts & Figures
- III . MOF Events
- IV . Local Finance
- V . Remarks & Opinions

I. Policy Update

1. MOF issued a circular on adjusting the 19th government procurement list for energy saving products

On February 1, the Ministry of Finance (MOF) issued a circular on adjusting the 19th government procurement list for energy saving products, which provides the following: first, computer equipment and input and output devices on the products list are mandatory items for government procurement. Other products on the list are priority items for government procurement. Second, products that are not included on the list are not mandatory and priority energy saving products for government procurement. Third, when the listed mandatory procurement products are involved in an already negotiated centralized government procurement contract, the centralized procurement agencies should renegotiate the contract with the suppliers based on the adjusted list. Fourth, when a needed product is a mandatory government procurement item, but the current list offers no corresponding detailed classification, or the listed products can not meet the working requirements, then the product can be purchased beyond the list.

2. MOF issued a circular on adjusting the 17th government procurement list for environmental labeling goods

On February 1, MOF issued a circular on adjusting the 17th government procurement list for environmental labeling goods, which

provides the following: first, the listed products are priority items for government procurement. Second, products that are not included on the list do not belong to priority environmental labeling products for government procurement. Third, government procurement of engineering services and engineering related products should comply with the priority list for environmental labeling goods. Fourth, the list is applicable for government procurement activities undertaken after the publication of this circular.

3. MOF issued *Management Measures for the Earmarked Central Transfer Payments to Local Governments*

On February 2, MOF issued *Management Measures for the Earmarked Central Transfer Payments to Local Governments*, which provides the following: first, the establishment of earmarked transfer payments should comply with clear requirements of laws and administrative regulations, performance targets, implementation time lines, etc. Second, the application for establishing such funds should be submitted to MOF by relevant central authorities or provincial governments. Third, the earmarked funds are automatically terminated after expiration. Fourth, after approval of establishing such funds, MOF should develop, together with other central authorities when necessary, management measures for the earmarked funds, so that each fund has its corresponding management measures. Fifth, regular evaluation mechanism for the earmarked funds should be established. Sixth, exist mechanism for the funds should be established. MOF is to handle the funds on a case-by-case basis according to relevant evaluation results.

4. The Central Committee of the CPC and the State Council issued *Guidelines for Tackling Poverty and Supporting Development in Old Revolutionary Areas*

On February 2, The Central Committee of the CPC and State Council issued *Guidelines for Tackling Poverty and Supporting Development in Old Revolutionary Areas*. First, when implementing mid to long-term programs such as the 13th Five-Year Plan for national economic and social development, staunch support should be given to old revolutionary bases by prioritizing transportation, water, energy and other major engineering projects. Second, the central government should give more support to old poverty areas through providing greater general transfer payments and earmarked funds which focusing on people's livelihood. Third, when newly approved construction land in urban and rural areas is designated, priority should be given to supporting development of poor counties in the old areas. Fourth, tap resource advantages on the old poverty areas by enhancing the development of photovoltaic and wind power, so as to foster growth engines in those areas. Fifth, improve pension benefits and regular living allowance standard for entitled groups, such as old revolutionaries and demobilized soldiers.

5. MOF issued *Interim Measures for Central State-owned Capital Budget Management*

On February 2, MOF issued *Interim Measures for Central State-owned Capital Budget Management*, which provides the following. First, the central state-owned capital budget income is to be collected from central departments and central enterprises, and included in the state capital

budget management. Second, the central state-owned capital budget expenditures are mainly used to solve the legacy problems of SOE reform and related costs, or provide subsidies and other policy support. Third, the central state-owned capital budget income is to be estimated by MOF based on the annual profitability of central enterprises and policies related to capital gains of central state-owned capital. Fourth, the draft central state-owned capital budget should be reported to the State Council for approval, and then submitted to the National People's Congress for review. Fifth, the central state-owned capital budget income is to be collected by Inspectors' Office of MOF, and central departments are responsible for organizing affiliated (owned) central enterprises to turn over the capital gains.

6. MOF issued *Management Measures for Assets Verification in Administrative Public Institutions*

On February 3, MOF issued *Management Measures for Assets Verification in Administrative Public Institutions*: first, administrative public institutions should take stock of their inventory assets. The institutions should submit application to their supervising authorities for the stocktaking, specify the rational of the work, scope of assets for review, and benchmark dates. The institutions may entrust intermediary agencies to conduct a special audit on the stocktaking results when necessary. The inventory should be reported through the commander chain and verified by the supervising authorities. Second, administrative public institutions may entrust legally established accounting firms or other intermediary agencies to conduct a special audit on the results of the stocktaking. Third, the stocktaking mainly includes basic assets, financial books, property and the inventory logging system.

7. MOF issued a circular on tax incentives for public rental housing

On February 4, MOF issued a circular on tax incentives for public rental housing: first, the land for public rental housing (including construction land and completed housing) is exempt from urban land-use tax. Second, the managing institutions of public rental housing are exempt from the stamp duty involved in the construction and management of public rental housing. Third, when purchased commercial housing is to be managed as public rental housing, the transaction is exempt from contract tax and stamp duty. Fourth, when enterprises, administrative institutions, social groups or other organizations transfer their old property to be public rental housing, and the increased land value does not exceeding 20% of the deducted value, the property is exempted from land appreciation tax. Fifth, when enterprises, administrative institutions, social groups or other organizations donate their property to be public rental housing, the expenditure relating to the charitable donation which is under 12% of the total annual profit may be deducted when calculating taxable income. Sixth, housing rental subsidies for low-income families are exempt from personal income tax. Seventh, public rental housing is exempt from property taxes. Rental income from the operation of public rental housing is exempt from business tax.

8. The State Council published several opinions on further advancing the new-type urbanization

On February 6, the State Council published several opinions on further advancing the new-type urbanization. (1) Pushing forward the process of turning rural migrant population into urban

residents. The household registration system will be reformed, the residence permit system be enforced, the universal access of urban residents to basic public services be promoted, and incentives be created for rural migrants to become city dwellers. (2) Comprehensively improving the functions of cities. Renewal of urban shanty towns and decrepit houses will be accelerated, urban underground pipe networks be improved, and the level of urban public service be enhanced. (3) Developing small and medium-sized cities and towns with special features. Infrastructure of counties and key towns will be improved, functions of major towns be expanded, towns of special features be promoted, and a batch of small and medium-sized cities be developed. (4) Driving the development of the new countryside. Infrastructure and public service will be extended to rural areas to promote the integrated growth of industries and development of e-commerce, and the relocation of people for the purpose of poverty reduction will be combined with the new-type of urbanization. (5) Innovating investment and financing mechanisms. Cooperation between public and private capitals will be deepened, government input be stepped up, and financial support be strengthened.

9. The Executive Meeting of the State Council decided to conduct the pilot program for innovative development of trade in services

On February 15, Premier Li Keqiang Presided the Executive Meeting of the State Council which decided to conduct the pilot program for innovative development of trade in services so as to transform the foreign trade and improve the competitiveness of the service sector. According to the Meeting: (1) service firms with advanced technology will be eligible for tax incentives,

and the scope of eligible firms will be extended from service outsourcing firms to other high-tech and high value-added firms in the service sector. (2) Funds will be created to guide the innovative development of trade in services, and provide financial support for small and medium-sized service firms in the pilot area. Fiscal subsidies will be given to the pilot areas for their imports of R&D, energy-saving and environmental protection services that are urgently needed in China. (3) Financial institutions will be encouraged to innovate supply chain financing and other business, and the certified service firms of advanced technology in the pilot areas will be subject to service outsourcing bonded supervision.

4 10. MOF published several opinions on promoting the stable growth, structural adjustment and efficiency enhancement of the industrial sector through enhanced financial support

On February 17, MOF published several opinions on promoting the stable growth, structural adjustment and efficiency enhancement of the industrial sector through enhanced financial support. (1) Strengthening the monetary and credit policy support and creating an enabling monetary and financial environment. Enhanced financial support will be provided for the supply-side structural reform in the industrial sector, the differentiated industrial credit policy be implemented, the innovation of industrial credit products be accelerated, and the industrial credit management system be improved. (2) Increasing the support of the capital market and insurance market to industrial companies. Support for the direct financing of industrial companies will be strengthened, the capacity of investment funds to support industrial companies be increased, asset securitization be promoted steadily, and the

level of industrial insurance service be constantly raised. (3) Advancing the innovation of industrial companies' financing mechanism. Receivable-based financing will be vigorously promoted, and efforts will be made to match industrial companies and financial institutions. (4) Promoting the merger and reorganization of industrial companies. The policy environment and financing channels for such merger and reorganization will be optimized. (5) Supporting industrial companies to "go global". Supportive policies and financing support for the industrial firms that endeavor to "go global" will be improved.

11. MOF published the guidelines on capitalizing government investment funds with fiscal resources to support industrial development

On February 17, MOF published the guidelines on capitalizing government investment funds with fiscal resources to support industrial development. (1) When fiscal resources are injected into government investment funds, it is important to consider the specific issues concerning macroeconomic and industrial development, enhance top-level design of policies, clearly define the functions and determine the appropriate size of those funds, and orderly proceed with the capitalization. (2) Market-based operation and professional management shall be adopted to ensure the well-functioning of those funds. (3) Finance departments, as the authorities that administer fiscal resources, shall earnestly fulfill their duties as the investors that capitalize those funds, strive to meet industrial policy targets, and protect the rights and interests of the investors. (4) Finance departments shall strengthen oversight of those funds, improve institutional arrangement, and foster a sound environment to enable supportive policies to better promote industrial development.

12. The Central Committee of the CPC and the State Council published the *Opinions on Comprehensively Advancing the Work of Making Government Affairs Public*

On February 18, the Central Committee of the CPC and the State Council published the *Opinions on Comprehensively Advancing the Work of Making Government Affairs Public*. (1) Making government affairs transparent. Greater openness is required for government decision making, implementation, management, services, results, and information in key areas. (2) Increasing the public participation in government affairs. It is important to make government data more transparent, enhance the explanation of policies, increase the public participation, respond to public concerns, and give full play to the role of the media. (3) Strengthening the capacity for making government affairs public. Relevant institutional arrangement shall be improved, a negative list for information disclosure be created, IT-application be increased, government websites be refined, and training and education be enhanced. (4) Improving supporting measures. The information disclosure shall proceed in an organized way and the performance be evaluated and supervised.

13. The Central Committee of the CPC and the State Council issued several opinions on further strengthening the urban planning and construction management

On February 22, the Central Committee of the CPC and the State Council issued several opinions on further strengthening the urban planning and construction management. First, raise building energy efficiency standards, and promote the use of green construction and

building materials. Second, on the basis of pilot and demonstration projects, intensify efforts to comprehensively promote energy-saving projects featuring combined heat and power, energy saving by government agencies, and green lighting. Third, deepen the reform on urban housing. The basic housing needs of the disadvantaged groups are mainly to be guaranteed by the government, while the diversified housing demands of the general public are to be addressed mainly by the market. Fourth, gradually push ahead with the development of urban underground pipeline system, with co-ordination of various types of pipe laying. Fifth, improve the public transport system by enhancing the burden-sharing ratio, in order to ease the pressure on urban traffic. Sixth, adhere to the concept of shared development, so the people may share greater benefit in common development.

14. MOF and MOA held a video conference on providing future incentives for ecological protection of grassland

On February 23, MOF and the Ministry of Agriculture (MOA) held a video conference on providing future incentives for ecological protection of grassland, which made targeted adjustment to relevant policy measures. First, the general production subsidies and forage seed subsidies for the herders are removed. The fund for those subsidies is to be combined with additional central fiscal fund to provide compensation for the grazing ban and incentives for balanced livestock raising. Second, financial awards will continue to be provided to areas with outstanding achievements in ecological protection and used by the local government in related efforts. Third, the agro-pastoral subsidies are to be earmarked to the

local authorities for grassland protection and development at their own discretion.

15. MOF issued a circular on regulating land reserves and fund management

On February 23, MOF issued a circular on regulating land reserves and fund management. First, when an existing loan for land reserve is identified as local government debt as of December 31, 2014, the loan should be put under the budget management of governmental funds. Second, the funds needed by land reserve institutions in launching additional land reserve projects are to be provided from the state-owned land income fund, the land transfer revenue and other fiscal funds. The funding gap, if any, is to be made up by issuing local government bonds by the provincial government. Third, the land reserve funds are to be used to pay for: the price or compensation relating to requisition, acquisition, priority purchase or recovery of the land; and the necessary pre-development expenses after requisition, acquisition, priority purchase or recovery of the land. Fourth, the land reserve agency should prepare the land reserve budget for the next year, on the basis of local economic development of the third quarter of the current year and overall financial conditions of the previous year.

16. The Executive Meeting of the State Council decided to further support the new energy vehicle industry

On February 24, during an executive meeting chaired by the Premier Li Keqiang, the State Council identified further measures to support the new energy vehicle industry.

First, the central government is to replace relevant subsidies with financial awards for new energy vehicle manufacturers based on battery performance, sales and other indicators. Second, the local government is encouraged to provide policy incentives based on the charging volume of the vehicle, and reduce fees for charging service. Third, the central government departments, government agencies and public institutions in demonstration cities for new energy vehicle should see to it that the new energy vehicles account for over 50% of their total replaced vehicle of the year. Fourth, access standards should be improved with enhanced quality and safety supervision. Measures should be taken to promote the development of new energy vehicles + the Internet of Things, and make manufacturers accountable for the safety monitoring and dynamic inspection. Fifth, fiscal subsidies and other supporting policies should be improved, and no traffic or purchase restrictions shall be imposed on the new energy vehicles.

17. MOF issued the *Work Outlines for 2016 Government Procurement*

On February 26, MOF issued the *Work Outlines for 2016 Government Procurement*. First, strengthen the development of government procurement system. Second, make in-depth study on relevant policies, and improve innovation-supporting measures. Third, improve the government procurement related management and trading system. Central government departments and procurement agencies are encouraged to use the project review system. Fourth, establish an integrated platform for the trading of public resources and design unified trading rules for government procurement. Fifth, strictly design budget

and plans for government procurement. The procurement should be managed with sound record-keeping, streamlined approval process and simplified procedure for imported goods. Sixth, organize nationwide and inter-connected supervision and monitoring on delegated procurement agencies, and improve the performance evaluation on centralized procurement agencies. Seventh, step up publicity efforts, and enhance research on deepening the reform of the government procurement system.

II. Facts & Figures

1. Fiscal balance in 2015

According to the data released on January 29 by MOF, the general public budget income was 15.2217 trillion RMB in 2015, up by 8.4% over the previous year. In breakdown, the budget revenue of the central level was 6.9234 trillion RMB, an increase of 7.4%; the revenue of the local level was 8.2983 trillion RMB, an increase of 9.4%. The national tax revenue was 12.4892 trillion RMB, up by 4.8% year on year; the non-tax revenue was 2.7325 trillion RMB, an increase of 28.9%. The public budget expenditure in 2015 was 17.5768 trillion RMB, an increase of 15.8% over the previous year. The central level expenditure was 2.5549 trillion RMB, up by 13.2%. The local expenditure from using local revenue, tax refund from the central government, transfer payment and carried forward surplus funds totaled 15.0219 trillion RMB, an increase of 16.3%.

2. PMI stood at 49.4% in January

According to the data released on February 1 by the National Bureau of Statistics (NBS), the PMI was 49.4% in January, a decline of 0.3 percentage point compared with the previous month. In terms of various sizes of businesses, PMI of large enterprises was 50.3%, a month-on-month decline of 0.6 percentage point; PMI for medium-sized enterprises was 49.0%, a decline of 0.6 percentage point; PMI for small businesses was 46.1%, an increased 1.2 percentage points. In terms of various indexes, the production index was 51.4%, down by 0.8 percentage point; new orders index was 49.5%, a decline of 0.7 percentage point. Employees index was 47.8%, a month-on-month increase of 0.4 percentage point; raw materials inventory index was 46.8%, down by 0.8 percentage point; the supplier delivery time index was 50.5%.

3. China's total imports and exports dropped by 23.9% month on month in January

The data released by the General Administration of Customs (GAC) on February 15 show that in January China's exports amounted to 1.143741 trillion RMB, down by 19.8% month on month, or 6.6% year on year; imports reached 737.537 billion RMB, down by 29.6% month on month, or 14.4% year on year. Total imports and exports were 1.881278 trillion RMB, down by 23.9% month on month, or 9.8% year on year.

4. China's CPI rose by 1.8% year on year in January

The data released by NBS on February 18 show that in January China's CPI rose by 1.8% year on year,

among which, the price of food, tobacco and alcohol increased by 3.6% year on year; the price went up by 2.9% for health care, 1.9% for apparel, 1.7% for education, culture and entertainment, 1.4% for living, and 0.6% for consumer goods and services; and the price dropped by 1.6% for transport and telecommunication, and 0.4% for other goods and services.

5. Non-banking private financing in China in January

According to the data released by the People's Bank of China (PBoC) on February 23, as of the end of January, China's existing non-banking private financing stood at 141.57 trillion RMB, a year-on-year increase of 13.1%. In breakdown, the outstanding RMB loans to the real economy was 95.29 trillion RMB, up by 14.9% year on year; the foreign currency-denominated loans to the real economy was equivalent to 2.87 trillion RMB, down by 17.8%; the balance of entrusted loans was 11.23 trillion RMB, an increase of 19.1%; the balance of trust loans totaled 5.51 trillion RMB, up by 2.9%; undiscounted bankers' acceptance notes amounted to 5.99 trillion RMB, down by 15.8%; the balance of corporate bonds stood at 14.98 trillion RMB, increasing by 25.3%; the stock of domestic non-financial enterprises was 4.67 trillion RMB, up by 22.3%.

III . MOF Events

1. On January 28, Vice Finance Minister Zhu Guangyao met with Mr. Timothy Geithner, the

visiting former US Treasury Secretary in Beijing. The two sides exchanged views on the state of world economy.

2. On January 29, Vice Finance Minister Liu Kun attended the inaugural meeting of the first National SME Development Fund and delivered a speech.

3. On February 2, Vice Finance Minister Zhu Guangyao met with the visiting US Trade Representative Froman in Beijing. The two sides exchanged views on China-US economic relations.

4. On February 19, Vice Finance Minister Shi Yaobin attended the opening ceremony of AMRO as an international organization in Singapore and delivered a speech. During his visit, Shi chaired the Finance Deputies' Meeting between China, Japan and South Korea, and held bilateral talks with counterparts from Laos, Singapore and Japan to exchange views on AMRO development and financial cooperation in East Asia.

5. On February 23, Assistant Finance Minister Xu Hongcai attended and delivered a speech on the video conference held by MOF and MOA on providing further incentives and awards for grassland ecological protection.

6. On February 25, Vice Finance Minister Zhu Guangyao was invited to attend the G20 seminar sponsored by the Institute of International Finance (IIF) in Shanghai, and participated in the discussion of global economic outlook.

7. On February 26, the G20 High-level Seminar on Structural Reform was held in Shanghai. The seminar was jointly sponsored by the Ministry of Finance of the People's Republic of China, International Monetary Fund (IMF) and Organization for Economic Co-operation and Development (OECD), and was hosted by China MOF Think Tank on International Economics. Lou Jiwei, Finance Minister of China, Christine Lagarde, Managing Director of the IMF, Angel Gurría, Secretary-General of the OECD, and Yang Xiong, Mayor of Shanghai Municipal Government attended the opening ceremony and delivered speeches. A total of more than 200 people attended the seminar, including representatives of G20 member countries, relevant international organizations, and renowned experts from home and abroad.

which completed 505.6 km of village roads, covering 74 towns and 159 villages, benefiting nearly 0.3 million farmers. Second, the village fund for constitutional building of the CPC grassroots organization was increased from 12,500 RMB to 25,000 RMB per village, an increase of 100%. Stronger financial status has effectively promoted grassroots organizational building and enhanced their vitality. Third, the mechanism for maintenance of rural public service was launched with 100 million RMB of fiscal input. The maintenance was focused on services relating to village sanitation, public facilities and venues. Fourth, the new agricultural social service system was actively promoted. 11 new projects in Shenyang were approved by provincial authorities as demonstrative services for agricultural modernization, an increase of 10 projects over the previous year.

IV. Local Finance

1. Finance authorities in Shenyang City achieved remarkable results in promoting comprehensive rural reform

According to the news released on February 3 by the Finance Department of Liaoning Province, the Shenyang municipal finance authorities actively promoted comprehensive rural reform and achieved remarkable results. First, progress was made in providing fiscal subsidies for public services in villages based on case-by-case consultation. Throughout 2015, Shenyang municipal authorities have invested 14.7351 million RMB of fiscal funds at various levels,

2. Guangdong Province initiated five measures in preparing the 2016 budget

According to the news released on February 4 by the Finance Department of Guangdong Province, the province has taken the lead in designing and disclosing the project pool for earmarked funds and policy funds, and achieved remarkable results. Efforts were taken in the following aspects: first, developing the general working plan and project pool for the earmarked funds. The auditing focus was shifted from “how much money was spent” to “what difference has been made”. Second, designing the fact-sheet for policy funds, which was to disclose the overview status of policy funds. Third, taking into account the social insurance billing rates, so as to enable more detailed budget planning for the Social Insurance Fund. Fourth, initiating early intervention in the projects relating to budget planning, so as to

integrate the guidelines of provincial People's Congress in the budget preparation. Fifth, taking the lead in designing animated Reader's Guide to improve the readability of the budget report.

3. Finance authorities of Guizhou Province have made headway in fiscal supervision and inspection

According to the news published by the Finance Department of Guizhou Province on February 15, finance authorities in Guizhou have been making headway in fiscal supervision and inspection. (1) Following the principle of "treating both symptoms and root causes", they combined the tackling of the misrepresentation of accounting information with the combating of corruption to hold accountable the people that misrepresent accounting information. (2) They put forth many constructive advices and suggestions by integrating accounting inspection with fiscal regulation, fiscal reform and improvement of economic system. (3) They further enhanced the efficiency of using funds by punishing the failure of compiling complete departmental and city-level budgets or incorporating carryovers and surplus into budget. (4) Through the inspection of the accounting information, they helped correct the negligence over the importance of financial management on the part of the heads of some inspected institutions.

4. Finance authorities of Yunnan Province have been working on four areas to support the establishment of a new system for the grass-root health service network

According to the news released by the Finance Department of Yunnan Province on February

17, it has been working on four areas to support the establishment of a new system for the grass-root health service network. (1) It disbursed 103.74 million RMB of funds to standardize 244 township clinics and 2627 village clinics. (2) It arranged 100 million RMB to support the integrated management over 395 township clinics and county hospitals, and invested 6.1054641 billion RMB to fund the free-of-charge training of medical students and recruitment of practicing doctors at grass-root health institutions. (3) It implemented the policy of providing rewards and subsidies for the grass-root health institutions engaging in comprehensive reforms, and helped improve the basic drug system and the new system for the functioning of grass-root health institutions. (4) From 2014 onwards, the number of village doctors that receive subsidies from it increased from 33241 to 37390, and the level of subsidy rose from 200 RMB to 300 RMB per person per month.

5. Finance authorities in Qinghai Province have duly performed their tasks of 2015 to support the sustainable and healthy development of economy and society

According to the news published by the Finance Department of Qinghai Province on February 18, finance authorities in Qinghai have duly performed their role to support the sustainable and healthy development of economy and society. (1) 26.71 billion RMB of budget revenue was collected in Qinghai, up by 6.1%, and 150.55 billion RMB of budget expenditure was made, up by 11.7%. (2) 100 billion RMB of central-level subsidies were disbursed, up by 7.5%. (3) The policy of structural tax cut and across-the-board fee reduction was implemented, with 101 central and provincial administrative charges scrapped,

suspended and exempted, and 9.44 billion RMB of taxes slashed in 2015. (4) 75% of fiscal expenditure continued to be used on areas related to people's livelihood. (5) The tasks of fiscal and tax reform were earnestly implemented and the *Master Plan of Deepening Fiscal and Tax Reform in Qinghai Province* was introduced.

6. The 2016 centralized government procurement catalog and standards of Yunnan Province featured new content, accurate description and detailed requirements

According to the news released on February 24 by the Finance Department of Yunnan Province, the 2016 centralized government procurement catalog and standards of Yunnan Province, which was issued by the General Office of the provincial government, featured new content, accurate description and detailed requirements. First, for the new content, the threshold for centralized and decentralized procurement was raised from 100,000 to 200,000 RMB, and "government procurement of services" and "PPP project procurement" were added to the service category of the catalog. Second, for accurate description, seldom-used items were removed from the centralized government procurement catalog; professional computer software, photography and some other items that used to be in the centralized governmental procurement catalog were adjusted to the centralized departmental procurement catalog; the tax invoices and other financial instruments were included in government procurement. Third, for detailed requirements, the purchaser is required to provide policy support to small and micro enterprises when preparing procurement budget; the purchaser or procurement agency is required to disclose purchased item and related documents of the procurement.

7. Huainan City of Anhui Province identified six objectives for public welfare projects

According to the news released on February 25 by the Finance Department of Anhui Province, the public welfare projects in Huainan City met people's expectation and delivered tangible benefits. First, four measures were taken to tackle poverty, i.e. industrial development, land swap and relocation, social security and employment medical assistance. With those measures, 50,000 people were lifted out of poverty throughout the year, including 31,000 from Shou County. Second, policies were adopted to support start-up business and employment, with stronger efforts in providing jobs for the disadvantaged groups. Third, public input in urban and rural compulsory public school was increased across the board, and poor high school students were exempt from tuition fees. Fourth, efforts were made to implement universal coverage of social security, as well as to improve medical insurance for critical illness and the pension insurance system. Fifth, strategic adjustment was made in the campaign of building the beautiful countryside by focusing on broader areas. Sixth, efforts were made to improve urban functions.

V. Remarks and Opinions

1. Liu Kun: strengthening management to ensure the healthy

operation of the National SME Development Fund

In one of his recent speeches, Vice Finance Minister Liu Kun pointed out that in order to ensure efficient operation of the National SME Development Fund and achieve both policy goals and economic returns, the Fund should follow the general rules of fund management and establish a structure with binding interests. The organizational structure of the Fund should adhere to market rules, implement the basic system of equity investment, and give play to endogenous strength of fund governance. The management should adhere to market operation to avoid administrative intervention. Meanwhile, it should adhere to scientific supervision to prevent regulatory loopholes. On one hand, we should provide safeguarding mechanism for the market-based management and structure of the Fund. At present, government agencies often make administrative intervention in fund management, which may substitute management decisions and interfere with investment choice, or even constitute multiple layers of review and examination. The management of the National SME Development Fund should be rationalized and avoid such pitfalls. Therefore, efforts should be made in, first, ensuring the decision-making authority of the management team; second, establishing the pluralistic ownership structure; and third, strictly implementing the partnership agreement. On the other hand, the government should perform regulatory authority properly. Currently, there are still many blind spots in the regulation of local funds. Relevant agencies may not know how to regulate, or how to fulfill their regulatory duties according to market rules. The regulation of the first national fund should focus on the following areas: first, the government is to participate in the internal governance of the Fund as investor. Second, external oversight is to be

strengthened. Upon the consent by its partners, the Council of the Fund is to conduct, or delegate a third party to conduct, regular checking on the investment operations, revenue and expenditure of the Fund. Third, the Shenzhen Municipal Government should strengthen its regulatory responsibilities. As the Shenzhen Venture Fund is a state-owned entity of the municipality, the Shenzhen government should give play to its regulatory advantages and strengthen local management.

2. Zhu Guangyao: the economic fundamentals of BRICS countries remain unchanged

In his recent published article, Vice Finance Minister Zhu Guangyao said that the international economic and financial situation is confronted with daunting challenges and the downward pressure on the world economy is growing. Some BRICS countries are confronted with temporary difficulties in economic growth, yet their economic fundamentals remain unchanged. Facing both challenges and opportunities, more coordination and cooperation among BRICS countries are needed. On one hand, BRICS countries account for over 20% of the world economy and are home to 40% of the world's population. Meanwhile, BRICS countries are major markets for consumer goods and important suppliers of resources. Their economic strength and level of human resources are on the rise, which will keep lifting up the economic growth of BRICS countries and contribute to world economic growth. On the other hand, cooperation among BRICS countries is deepening and widening, particularly, with the visionary leadership and efforts of BRICS leaders, seven leaders' summits have been successfully held, and the all-round cooperation covering economic,

financial, cultural, political and diplomatic areas also keep moving forward. In addition, there is solid foundation for economic cooperation among BRICS countries, and notably, substantial progress has been achieved in the financial infrastructure cooperation. Thanks to the efforts of BRICS leaders, the New Development Bank is now up and running and the Contingency Reserve Arrangement has been established, which marks an epoch-making milestone for financial cooperation among BRICS countries. As the economic strength of BRICS countries keeps rising, they also involve more actively in global economic governance, and support and collaborate with each other to speak up for the demands of developing countries. Despite the temporary economic setbacks and financial market volatilities in some BRICS countries, BRICS countries have huge resource endowments, strong human resources, powerful foundation and potential for economic growth, and sound policy space, which will help BRICS countries tackle the current challenges. We have every reason to believe that the deepening economic reform and opening-up of China will ensure the Chinese economy will remain on the track of sustainable and healthy growth and meet the development targets identified in the 13th Five-Year Plan. China, along with other BRICS countries, will push forward economic structural reform to improve economic structure, unleash growth potential, bring benefits to the peoples of BRICS countries, and contribute to world economic growth.

3. Liu Kun: strengthening the coordination of fiscal and financial policies to move forward structural reform

In his recent address, Vice Finance Minister Liu Kun said that 2016 is the beginning of

the decisive phase of building a moderately prosperous society, and also marks a critical year of China's efforts to advance structural reform. This year's four priorities in fiscal and financial areas are: (1) keeping the economic performance within a reasonable range, intensifying the proactive fiscal policies and adopting a flexible approach to prudent monetary policies. In 2016, macroeconomic environment is complicated and the pressure of maintaining stable growth is rising, which requires the government to have relatively high expenditure and to cut the investment and operating costs of market entities. Therefore, it is necessary to implement both tax cut and deficit in the fiscal policies. (2) Enhancing the quality and efficiency of the supply system and the effectiveness of investment. While new driving forces of growth are nurtured, traditional comparative advantages will also be reinvented to foster the momentum for sustained growth. Targeted industrial policies, solid reform measures and sound social policies will be adopted, and fiscal and financial policies will be more integrated with market mechanisms. (3) Strengthening the awareness and capacity to prevent risks, and controlling and resolving risks in a scientific way. Currently, the economic risks of China are centered on local government debt and the financial sector. To control the former, local government debt management shall be further strengthened, the stock of debt be properly handled, the debt service and payment obligations be honored, and the early warning of risks be enhanced; to contain the financial risks, greater supervision is required and all sorts of financing activities be regulated. (4) Deepening engagement in international economic and financial cooperation and involvement in global economic and financial governance. On the basis of implementing

the Belt and Road Initiative, MOF will deepen international economic and financial cooperation to help promote domestic innovation, reform and development.

4. Lou Jiwei: build consensus on structural reform and promote global economic growth

During his speech on February 26 in the G20 High-level Seminar on Structural Reform, Finance Minister Lou Jiwei noted that the global economy is still facing serious challenges. IMF has lowered its forecast for global economic growth from 3.6% to 3.4%, and other important international organizations have also lowered their forecasts for 2016. Under this background, it is still a daunting task for G20 to promote strong, sustainable and balanced growth. It is apparent that global economy is in a low growth territory, as reflected by weak aggregate demand, prominent unemployment, heavy debt, and sluggish trade and investment. Such difficulties are closely related to cyclical factors and short-term downside risks, but the deeper causes are rooted in the long-term structural problems of the global economy. Especially after the financial crisis, the major economies are witnessing slower TFP growth and lower potential output, which constitute fundamental constraints on stronger growth of the world economy. The solution for strong, sustainable and balanced growth is to deepen structural reforms. The correlation between structural reforms and macroeconomic performance has been confirmed by many theoretical studies and country-specific empirical analysis, and by international experience as well. Early stage of economic development of a country

mainly depends on factor inputs, while in the later stages of development the contribution of TFP would gradually increase. In general, structural reforms have attracted growing attention by G20 in recent years, and many policy efforts were made in this regard. In 2015, G20 countries have updated their growth strategies based on new developments, and made new policy commitments. However, on the whole, the reform progress still lags behind expectations. We still need to further strengthen the structural reform agenda. First and foremost, G20 needs to strengthen top-level design of reform initiatives. While considering the differences in national conditions and stage of development of each country, G20 can seek “common ground” on some basic principles and areas of reform, and set priorities and guiding principles for structural reforms. This will help G20 members to jointly promote and implement the reforms and maximize the positive spillover effects.

In light of major global structural challenges and existing focus of reform commitments of G20, the following areas deserve further exploration. First, to promote trade and investment. In the last two years, international trade and foreign direct investment growth was significantly lower than pre-crisis levels, thus their contribution to the global economy declined significantly. G20 should strive to reduce market access barriers, eliminate tax barriers to cross-border trade and investment, and improve labor market flexibility, all in a bid to increase private investment, foster trade growth, so as to restore the traditional growth engine of the global economy. Second, to promote labor market reforms. Affected by aging and other factors, the structure of the global supply of labor is changing, and the labor participation rate

is on a declining path. G20 should strive to break the fragmentation of the labor market, reduce barriers to employment, and encourage labor mobility. Some countries should make necessary reforms to their social security system, encourage employment through competition, and prevent labor costs from rising too fast. At the same time, we should increase investment in education, improve the quality of education and make education better match the demands of labor markets. Third, to encourage innovation. On one hand, we should continue to give greater support to technological progress, including policy incentives as well as institutional and non-institutional protection for improvement of technical innovation, so as to foster early advent of new technological and industrial revolutions. On the other hand, we should make necessary institutional innovations. These include institutional reforms and innovations in taxation, industry regulation, social security, protection of property rights, intellectual property rights at the country level, and further multilateral reforms in monetary, trade and investment, finance, taxation at the international level, so as to improve global economic governance. Fourth, to improve fiscal sustainability. After the financial crisis, the size and duration of heavy government debt across the world is unprecedented, causing serious impacts on financial stability and market confidence. To some extent, it has become a structural problem in the global economy. In the medium to long term, G20 needs to ensure debt sustainability, and gradually restore fiscal space, in order to lay the foundation for sustained economic growth. In addition, countries are generally faced with medium to long-term challenges in infrastructure, competition, financial reform, environmental

sustainability, etc., which should become priority areas for structural reforms in the future.

While enhancing the top-level design, G20 should strengthen monitoring and analysis of the progress and effectiveness of the reforms, to better implement reform commitments. Currently, progress on structural reforms was mainly measured through qualitative analysis, while quantitative evaluation is lacking, so the evaluation findings are not clear and intuitive. To this end, G20 may consider building quantitative analysis framework through a set of structured indicators. Such framework could, on one hand, objectively measure the overall effectiveness of reforms in the economic, social and environmental aspects; and on the other hand, summarize progress and deficiencies of structural reforms in various areas of a country in an intuitive way, and to provide reference and guidance for the next stages of reforms.

5. Zhu Guangyao: with downside risks to the global economy, G20 needs to strengthen policy coordination

In his remarks on February 25, Vice Finance Minister Zhu Guangyao noted that with downside risks to the global economy, G20 members needed to strengthen policy coordination to address the challenges and boost confidence in the global market. The G20 Finance Ministers and Central Bank Governors' Meeting is held once a year, and is mainly tasked to analyze the current global economic situation and discuss coping strategies. This year's meeting has attracted special attention, because firstly, the host is China, and secondly, the world economy is experiencing "cold snaps". In

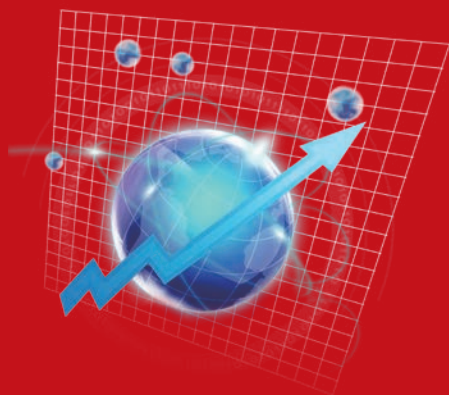
January, IMF lowered its global economic growth forecast for 2016 to 3.4%, slightly higher than last year's 3.1%; the World Bank lowered its 2016 forecast to 2.9%, lower than the estimate in mid last year; the latest report by OECD also lowered its 2016 global growth forecast from 3.3% in November last year to 3%. The above data more or less reflect the fact that the global economy is facing downside risks. The G20 finance ministers and central bank governors will discuss at the meeting how member states are to strengthen policies coordination and cooperation and solidarity, so as to bring the

global economic growth back on track, and strive to achieve balance between immediate, medium and long-term economic growth. As the second largest economy, China's policies will have impacts on other countries, so will the Fed's policy. Countries should strengthen policy coordination, which makes the G20 meeting all the more important. Furthermore, we can not rely solely on monetary policy, fiscal policy should also play a role, so as to achieve better policy portfolio. At the same time, we need to have good communication with the market to clarify policy intentions.

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