

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Lou Jiwei: strengthening international cooperation and coordination to jointly counter global economic challenges
- Finance Minister Lou Jiwei attended the press conference of the G20 Finance Ministers and Central Bank Governors Meeting
- MOF issued a circular on the full roll-out of the “replacing business tax with VAT” pilot reform
- The State Council published the opinions on the key tasks required by the *Government Work Report*
- China’s estimated revenue and expenditure arrangement for 2016

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

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## I. Policy Update

### 1. MOF, MOST and SASAC jointly published the *Interim Measures for the Equity and Dividend Incentives of the State-owned Science and Technology Firms*

According to the news released by the Ministry of Finance (MOF) on February 29, MOF, the Ministry of Science and Technology (MOST) and the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) jointly published the *Interim Measures for the Equity and Dividend Incentives of the State-owned Science and Technology Firms* and decided to roll out the trial policies nationwide from March 1, 2016 onwards. The qualified state-owned science and technology firms can distribute to important technical and managerial staff either equity incentives, such as equity sale, equity rewards and equity options, or dividend incentives, including those based on project profits or staff performance. Meanwhile, in distributing the incentives, firms shall proceed in a transparent and fair way in accordance with relevant laws and regulations; take into account the specific circumstances of firms; ensure the benefits are shared and risks are pooled; and enhance accountability and oversight.

### 2. The State Council published a circular on providing incentives for

### the areas that have made notable achievements in implementing relevant policy measures

On February 29, the State Council published a circular on providing incentives for the areas that have made notable achievements in implementing relevant policy measures. (1) Disbursing a portion of the 2016 special construction funds to those areas. (2) The central budgetary investment funds that sat idle in 2015 and are taken back in 2016 will be allotted by the provincial development and reform departments to the specific projects in those areas. (3) The idle specific-purpose transfer payment funds taken back in 2016 will be allocated by MOF to the provinces (districts and cities) in those areas. (4) The businesses of those areas can directly submit application documents at the administrative service center of NDRC if they are to issue corporate bonds. (5) The central government may make advance arrangement of funds to the provinces (districts and cities) in those areas. (6) Rewards in the form of extra land designation for construction projects will be granted to those areas.

### 3. MOF published a circular on the subsidy standard for gas development and use during the 13th Five-Year Plan Period

On March 1, MOF published a circular on the subsidy standard for gas development and use during the 13th Five-Year Plan Period. (1) During the 13th Five-Year Plan Period, the subsidy standard for gas development and use is raised from 0.2 RMB/m<sup>3</sup> to 0.3 RMB/m<sup>3</sup>. In the meantime, MOF will adjust, when appropriate,

the subsidy policy in light of the developments in the gas industry and the changes of the extraction costs and the market sales price. (2) Other relevant matters will continue to be governed by the *Opinions of the Ministry of Finance on Implementing the Subsidy for Coal-bed Methane (Gas) Development and Use*.

#### **4. MOF published a circular on further clarifying the issues related to the application of public-welfare social organizations for the invoices of donation for public welfare**

On March 1, MOF published a circular on further clarifying the issues related to the application of public-welfare social organizations for the invoices of donation for public welfare. (1) Public-welfare social organizations can apply to the corresponding-level fiscal authorities for the invoices. (2) The invoices are obtained only when relevant credentials are presented, the number of invoices issued each time is subject to limit, and new invoices can only be acquired when the counterfoils of the old ones are verified. (3) The finance authorities shall strengthen the oversight and inspection over the application (purchase), use and keeping of the invoices by the public-welfare social organizations. (4) The civil affair authorities shall urge the public-welfare social organizations to ensure the invoices are well used.

#### **5. MOF published a circular on the relevant tax policy issues related to the Insurance Security Fund**

On March 1, MOF published a circular on the

relevant tax policy issues related to the Insurance Security Fund. (1) The income in forms of statutory insurance security funds contributed by domestic insurance firms, donation proceeds and bank deposit interests shall be exempted from the corporate income tax. (2) The income in forms of statutory security funds contributed by domestic insurance firms, compensation from the liquidated property of the dissolved or bankrupt insurers, and the recourse against the liable parties shall be exempted from the business tax. (3) The capital accounts newly created by the Fund as well as the relending contract signed with the People's Bank of China (PBOC) in the course of risk resolution of insurers shall be exempted from the stamp tax.

#### **6. MOF published the guidelines on the promotion of green consumption**

On March 2, MOF published the guidelines on the promotion of green consumption. (1) Encouraging the consumption and promotion of green products, including energy-efficient electric motors, vehicles and lighting products. (2) Expanding the green consumption market, including facilitating the distribution channels of green products and fostering green distributors such as green wholesale market, green malls, energy-efficient supermarket, water-saving supermarket and goodwill supermarket. (3) Promoting green office, including raising the using efficiency of office equipment and assets, encouraging double-sided printing, advancing the development of information system and data sharing, and creating the paperless office. (4) Improving the green procurement system, including rigorously enforcing the system of priority and mandatory procurement of energy-

saving and environmentally friendly products by government, expanding the scope of government's green procurement, putting in place sound standard system and enforcement mechanism, and increasing the size of government's green procurement.

## **7. MOF and MOT jointly issued the *Guiding Opinions on Promoting Government Procurement of Services in Transport Sector***

On March 10, MOF and the Ministry of Transport (MOT) jointly issued the *Guiding Opinions on Promoting Government Procurement of Services in Transport Sector*: (1) items for procurement. Transport services may be gradually acquired from private service providers through government procurement, except for cases otherwise stipulated by laws and regulations, or involving national security, or relating to services directly obtained from administrative institutions, which are unsuitable for private sectors. (2) The purchaser should establish a sound mechanism for government procurement of highway and waterway transportation services, which should be flexible, regulated, competitive and cost effective. (3) The fund for government procurement of private services is to be included in fiscal budget and allocated from departmental budget or approved earmarked funds. (4) Efforts are to be made to strengthen performance management of government procurement of transportation services, enhance the sense of accountability and efficiency, and improve the performance evaluation mechanism.

## **8. MOF published a circular on the harmonization of the old and new**

## ***Rules for the Administration of Accounting Files***

On March 14, MOF published a circular on the harmonization of the old and new *Rules for the Administration of Accounting Files*. (1) Where the new rules differ from the old ones in terms of the minimum retention period, the new rules shall prevail. (2) If the files reach the minimum retention period set out in the old rules, they shall be verified under the new rules to decide whether they will be destroyed or kept. (3) The files that do not reach the minimum retention period set out in the old rules shall be reassessed to determine a new retention period as required by the new rules. (4) The accounting documents formed before 2014 shall be filed away and kept according to the old rules. (5) All the entities that retain the files electronically in accordance with the new rules shall, in principle, do so at the start of a complete accounting year.

## **9. MOF published a circular on the 2016 Rules for the Administration of the Issuance Quota of Treasury Savings Bonds**

On March 15, MOF published a circular on the *2016 Rules for the Administration of the Issuance Quota of Treasury Savings Bonds*. (1) Before the issuance, MOF and PBOC, in accordance with the circular, shall make pro rata allocation of the basic sales quota among the members of the underwriting syndicate. (2) MOF and PBOC may cut the remaining basic sales quota of the underwriters that are lagging in sales. (3) The competitive sales quota (for electronic bonds) left over and zeroed out on a given day shall not exceed 7% of the basic sales

quota of the current bonds. (4) If the sales exceed the allowed quota limit, the sales shall be suspended immediately. (5) After the end of the issuance (of the electronic bonds), the unsold quota shall be zeroed out or suspended; and the China Central Depository and Clearing Co. shall cancel the unsold quota in its system.

## 10. MOF published a circular on continuing the preferential tax policies for the operation of the rural drinking water safety project

On March 16, MOF published a circular on continuing the preferential tax policies for the operation of the rural drinking water safety project. (1) The project operating and management agencies shall be exempted from the deed tax when they acquire the land use rights for the project. (2) The project operating and management agencies shall be exempted from the stamp tax when they sign the property transfer documents to acquire land use rights or when they sign construction contracts with the construction companies. (3) The property and land used by the project operating and management agencies for operation and office purposes are exempt from the property tax and urban land use tax. (4) The sales income derived by the project operating and management agencies from supplying tap water to rural residents is exempt from the VAT. (5) Starting from the tax year when the first operating income is generated from the project, the project operating and management agencies shall be exempted from corporate income tax from year 1 to year 3, and have their corporate income tax halved from year 4 to year 6.

## 11. MOF issued the *Rules for the Administration of Non-tax Revenues of the Government*

On March 18, MOF issued the *Rules for the Administration of Non-tax Revenue of the Government*. (1) The non-tax revenues can either be levied directly by the finance authorities, or by agencies or institutions commissioned by the finance authorities. (2) All non-tax revenues should be turned over to the treasury. (3) The non-tax revenues should be collected under the centralized single treasury account. (4) Finance authorities at all levels should strengthen the receipt management to ensure the legal and legitimate non-tax revenues are collected to the treasury in full and on time. (5) The receipts of non-tax revenues are to be obtained with required credentials, with regular issuance and value ceiling for each time, and new receipts can only be acquired when the counterfoils of the old ones are verified. (6) The recipient of non-tax revenues should file the counterfoils in sequence and keep them in bound books. (7) The non-tax revenues should be collected, deposited, returned, cleared and audited through the single treasury account system.

## 12. MOF issued a circular on the tax policy for railway bond interest income

On March 23, MOF issued a circular on the tax policy for railway bond interest income. (1) For corporate investors, the corporate income tax for interest income generated from railway bonds issued during 2016-2018 is levied with a 50% discount. (2) For individual investors,

interest income generated from railway bonds issued during 2016-2018 is recorded at 50% in the calculation of taxable individual income. The bond underwriter is to withhold the tax when the interest is redeemed by the individual investor.

(3) Railroad bonds are issued and redeemed by the China Railway Corporation, including debt financing instruments such as the Chinese railway construction bonds, medium-term notes, and short-term financing bonds.

### **13. MOF issued guidance on providing financial services to support poverty reduction**

On March 24, MOF issued guidance on providing financial services to support poverty reduction.

(1) The financial services should be tailored to support development plans of the poor regions, development of special industries, employment and education of the poor population, and relocation efforts for poverty reduction purposes. (2) Efforts should be made to improve the rural payment system to provide access for villagers and rural households, enhance the rural credit system to better connect credit record and extension of loans, and promote financial literacy to strengthen financial consumer protection in poverty-stricken areas. (3) Development financing and policy financing should be calibrated to serve poverty alleviation initiatives. Measures are to be adopted to improve comprehensive commercial financial services, build a multi-level financial service system in rural areas, strengthen financial counseling and incubation, and make innovation in targeted poverty reduction products and services. (4) Programs of pro-poor re-lending are to be launched. Efforts should be made in

strengthening financial and taxation policy coordination and implementing differentiated regulatory policies.

### **14. China starts to levy import duties on cross-border e-commerce retail products and adjust the parcel tax since April 8**

According to the news released on March 24 by MOF, China will start to levy import duties on cross-border e-commerce retail products and adjust the parcel tax since April 8. The imported retail products through cross-border e-commerce are subject to tariffs on imported goods. The value ceiling for each single purchase is raised from the current 1,000 RMB under the parcel tax to 2,000 RMB, and the annual limit for gross transactions by an individual consumer is 20,000 RMB. As long as the purchase doesn't exceed the ceilings, the interim tariff rate is zero, and an import value-added tax and consumption duties will be levied but with a 30% discount. Meanwhile, China will adjust the parcel tax, reducing the current four tax brackets to three. In order to be consistent with the overall tax rate for similar imported goods, the parcel tax brackets for taxable items after the adjustment are 15%, 30% and 60% respectively.

### **15. MOF issued a circular on the full roll-out of the “replacing business tax with VAT” pilot reform**

On March 24, MOF issued a circular on the full roll-out of the “replacing business tax with VAT”

pilot reform: starting from May 1, 2016, the pilot VAT reform will be implemented nationwide and across all sectors, covering all business taxpayers in construction, real estate, financial services and consumer services. Local authorities should attach great importance to this initiative by stepping up relative administration and organization, specifying lines of responsibility, adopting measures to make preparations, and conducting monitoring, analysis and public education of the program during the rolling out process, all in a bid to ensure steady, orderly and smooth progress of the reform.

## 16. The State Council published the *Regulations of the National Social Security Fund*

On March 29, the State Council published the *Regulations of the National Social Security Fund*. (1) The National Council for Social Security Fund (SSF) shall make investment in domestic and foreign markets by following the investment proportion authorized by the State Council. (2) SSF may make entrusted investment or other alternative forms of investment authorized by the State Council. (3) The property of the Fund shall be independent from the property owned by SSF, investment managers and trustees, and shall also stay independent from other property invested by the investment managers and under the custody of the trustees. (4) The Fund is entitled to preferential tax treatments prescribed by the state. (5) Finance authorities and social insurance authorities of the State Council shall fulfill their mandate and exercise supervision over the collection, outlay, management, investment and operation of the Fund. (6) National Audit Office (NAO) shall conduct at least one audit

of the Fund in each year and make public the audit results.

## 17. The State Council published the opinions on the key tasks required by the *Government Work Report*

On March 30, the State Council published the opinions on the key tasks required by the *Government Work Report*. (1) Improve and stabilize the macroeconomic policies, keep the economic performance within a reasonable range, redouble efforts to implement proactive fiscal policies, and enforce prudent monetary policies in a flexible and appropriate manner. (2) Move forward the supply-side structural reform, enhance the momentum for sustained growth, move ahead deregulation, improve regulation, unlock the potential for entrepreneurship and innovation, cut overcapacity and costs, improve the provision of products and services, deepen SOE reform, and invigorate the non-public economic sector. (3) Tap the potential for domestic demand, expand the room for development, spur economic growth through consumption, maintain steady growth and improve economic structure through leveraging effective investment, advance the new-type of urbanization, and optimize the development across regions.



## II. Facts & Figures

### 1. China's manufacturing PMI in February was 49.0%

The data published by the National Bureau of Statistics (NBS) on March 1 show that China's manufacturing PMI in February was 49.0%, down by 0.4 percentage point month on month. In a breakdown of enterprises, PMI was 49.9% for large-sized ones, down by 0.4 percentage point month on month; 49.0% for medium-sized ones, staying flat month on month; and 44.4% for small-sized ones, down by 1.7 percentage points month on month. In specific terms, the production index was 50.2%, down by 1.2 percentage points month on month; the new order index was 48.6%, down by 0.9 percentage point month on month; the employee index was 47.6%, down by 0.2 percentage point month on month; the raw material inventory index was 48.0%, up by 1.2 percentage points month on month; and the supplier delivery time index was 49.8%.

### 2. China's CPI in February rose by 2.3%

According to the data released on March 10 by NBS, China's CPI in February rose by 2.3% year on year. In breakdown, CPI rose by 2.3% in cities and 2.2% in rural areas; food prices increased by 7.3%, non-food prices went up by 1.0%;

consumer goods prices rose by 2.6%, and services prices grew by 1.8%. On month-on-month terms, the CPI rose by 1.6% over the previous month. It went up by 1.6% in cities and 1.6% in rural areas; food prices rose by 6.7%, non-food prices edged up by 0.3%; consumer goods prices rose by 2.2%, and services prices grew by 0.5%.

### 3. China's lottery sales in January

According to the data released on March 11 by MOF, China's lottery sales in January totaled 32.641 billion RMB, 6.592 billion RMB less than the same period of last year, a drop of 16.8%. In breakdown, the welfare lottery sales were 18.127 billion RMB, down by 1.559 billion RMB, decreasing by 7.9% year on year; sports lottery sales were 14.514 billion RMB, down by 5.033 billion RMB, dropping by 25.7%.

### 4. China's fiscal revenue and expenditure in January and February

The data released by MOF on March 16 shows that in January and February, revenue under China's general public budget was 2.7385 trillion RMB, up by 6.3% year on year, among which, revenue at the central government level was 1.1765 trillion RMB, up by 1.6%; revenue at the local government level was 1.562 trillion RMB, up by 10%. Expenditure under China's general public budget was 2.117 trillion RMB, up by 12% year on year, among which, expenditure at the central government level was 314.7 billion RMB, down by 2.1%; expenditure at the local government level was 1.8023 trillion RMB, up by 14.9%. Revenue of the national governmental

fund was 569.8 billion RMB, basically flat over last year, among which, revenue at the central government level was 61.4 billion RMB, up by 1.3%; revenue at the local government level was 508.4 billion RMB, down by 0.2%. Expenditure under the national governmental fund was 347.7 billion RMB, down by 22.1% year on year, among which, expenditure at the central government level was 13 billion RMB, down by 31.9%; expenditure at the local government level was 334.7 billion RMB, down by 21.6%.

## 5. China's aggregate financing to the real economy in February

The data released by PBOC on March 16 show that, as of the end of February, China's aggregate financing to the real economy stood at 142.5 trillion RMB, up by 12.7% year on year. Specifically, the outstanding RMB loans to the real economy was 96.1 trillion RMB, up by 14.3%; the outstanding foreign currency-denominated loans to the real economy was equivalent to 2.81 trillion RMB, down by 19.3%; the outstanding entrusted loans was 11.39 trillion RMB, up by 19.2%; the outstanding trust loans totaled 5.54 trillion RMB, up by 3.4%; the undiscounted bankers' acceptance notes amounted to 5.62 trillion RMB, down by 20.3%; the outstanding corporate bonds stood at 15.24 trillion RMB, up by 26.8%; the domestic outstanding stock of non-financial enterprises was 4.75 trillion RMB, up by 22.7%.

## 6. China's estimated revenue and expenditure arrangement for 2016

According to the data released on March 18 by

MOF, by estimation, the 2016 central government revenue under the general public budget is 7.057 trillion RMB, an increase of 2.2% compared with 2015. The estimated expenditure of the central government is 8.5885 trillion RMB, an increase of 6.3%. Central government deficit is 1.4 trillion RMB, an increase of 280 billion RMB over 2015. The central government fund revenue is 427.165 billion RMB, an increase of 5%. With carried-over revenue of 24.817 billion RMB from last year, the total revenue of the central government funds is 451.982 billion RMB. The expenditure of central government funds is 451.982 billion RMB, an increase of 5.5%. The revenue for provincial government funds is 3.290209 trillion RMB, down by 12.4%. The central state-owned capital operation budget income is 140 billion, down by 13.2%. The central state-owned capital budget expenditure is 155.123 billion RMB, an increase of 37.3%. The provincial state-owned capital operation budget is 89.47 billion RMB, down by 5.5%. Adding the transfer payment of 36 billion RMB from the central level, the income for local state-owned capital operation budget is 125.47 billion RMB. The revenue of National Social Insurance Fund is 4.714419 trillion RMB, an increase of 5.6%, and the expenditure of the Fund is 4.354653 trillion RMB, an increase of 10.6%.

## 7. The performance of Chinese SOEs from January to February

The data published by MOF on March 25 show that from January to February, the operating income of SOEs totaled 6.24155 trillion RMB, down by 5.8% year on year; the operating costs of SOEs totaled 6.1209 trillion RMB, down by 5.2% year on year, among which, the sales expenses

were up by 5.5%, management expenses increased by 4.9% and financial expenses were down by 1.7%; the profits of SOEs totaled 222.61 billion RMB, down by 14.2% year on year; the payable taxes of SOEs totaled 639.74 billion RMB, down by 0.5% year on year; the assets of SOEs totaled 120.32818 trillion RMB, up by 15.6% year on year; the liabilities totaled 79.73067 trillion RMB, up by 17.9% year on year; and the owner's equity totaled 40.59751 trillion RMB, up by 11.2% year on year.

## 8. China's lottery sales in February

The data released by MOF on March 25 show that nationwide lottery sales in February totaled 22.454 billion RMB, down by 2.335 billion RMB year on year, or 9.4%, among which, welfare lottery sales were 12.341 billion RMB, down by 672 million RMB, or 5.2%; sports lottery sales were 10.114 billion RMB, down by 1.663 billion RMB, or 14.1%. Cumulative nationwide lottery sales from January to February totaled 55.096 billion RMB, down by 8.927 billion RMB year on year, or 13.9%, among which, welfare lottery sales were 30.468 billion RMB, down by 2.231 billion RMB, or 6.8%; sports lottery sales were 24.628 billion RMB, down by 6.696 billion RMB, or 21.4%.

## 9. The total profits of industrial enterprises above designated size in China rose by 4.8% year on year from January to February

The data published by NBS on March 27 show that from January to February, the profits of

industrial enterprises above designated size in China totaled 780.71 billion RMB, up by 4.8% year on year, among which, the figure stood at 117.13 billion RMB for state-controlled ones, down by 14.5% year on year; 6.36 billion RMB for collectively owned ones, down by 0.3%; 521.61 billion RMB for joint-stock ones, up by 6.4%; 192.51 billion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, up by 5.6%; and 310.37 billion RMB for private ones, up by 7.5%. From January to February, the operating income of industrial enterprises above designated size totaled 15.2601 trillion RMB, up by 1% year on year; and the operating costs totaled 13.01011 trillion RMB, up by 0.7% year on year. By the end of February, the assets of industrial enterprises above designated size totaled 95.73759 trillion RMB, up by 5.8% year on year; the liabilities totaled 54.38361 trillion RMB, up by 5.5%; and the owner's equity totaled 41.35398 trillion RMB, up by 6.1%.

## III . MOF Events

1. On February 24, Finance Minister Lou Jiwei met with Mr. Jim Yong Kim, President of the World Bank Group, who was visiting China for the G20 Finance Ministers and Central Bank Governors Meeting. The two sides exchanged views on the joint research on healthcare reform, the design of the loans for healthcare reform, the research on

fostering new drivers of economic growth and other issues related to bilateral practical cooperation, multilateral coordination of policies and global common development.

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2. On February 25, Vice Finance Minister Shi Yaobin met with Mr. Axel Trotsenburg, Vice President of the World Bank, and exchanged views on IDA18, the World Bank's support to the economic transition of low-income countries, and the countering of the refugee crisis from the perspective of long-term development.

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3. On February 27, Finance Minister Lou Jiwei attended the press conference of the G20 Finance Ministers and Central Bank Governors Meeting, briefed on the discussion and outcomes of the meeting, and answered questions from the press.

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4. On February 27, on the sidelines of the G20 Finance Ministers and Central Bank Governors Meeting in Shanghai, Finance Minister Lou Jiwei attended the signing ceremony of *the Agreement and the Memorandum of Understanding Regarding the Headquarter of the New Development Bank in Shanghai, the People's Republic of China*.

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5. On February 27 and 28, Vice Finance Minister Hu Jinglin visited Xinjiang Uygur Autonomous Region to study the issues facing the reform and development of the Xinjiang Production and Construction Corps.

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6. On February 29, Vice Finance Minister Zhang Shaochun chaired a ministerial working meeting

to deliberate the *National Fiscal Planning Outlines for the 13th Five-Year Plan Period*. Available ministerial officials at MOF attended the meeting. Officials from 14 departments of MOF participated in the meeting.

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7. On March 7, Finance Minister Lou Jiwei and Assistant Finance Minister Xu Hongcai attended the press conference of the fourth session of the 12th National People's Congress (NPC), which was held in the Media Center in Beijing. They took questions on fiscal and taxation reforms from domestic and foreign reporters.

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8. On March 15, Vice Finance Minister Zhu Guangyao met with Mr. Szubin, the acting under secretary for terrorism and financial intelligence of the U.S. Treasury Department, and exchanged views over international cooperation on combating terrorist financing.

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9. On March 20, Finance Minister Lou Jiwei met with OECD Secretary-General Angel Gurría, the Asian Development Bank President Takehiko Nakao, Inter-American Development Bank President Luis Alberto Moreno, and UBS CEO Sergio Ermotti, who were attending the 2016 China Development Forum.

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10. On March 21, Vice Finance Minister Yu Weiping met with the PwC Global Chairman Mr. Dennis Nally. The two sides exchanged views on values and trust building of the CPA profession, as well as accounting reform and progress.

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11. On March 23, Vice Finance Minister Zhu Guangyao met with the Director of the Asia and Pacific Department of IMF Changyong Rhee. The two sides exchanged views on the situation of Chinese and global economy.

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12. On March 24, Vice Finance Minister Zhu Guangyao met with Kurt Campbell, the former Assistant Secretary of State of the U.S., and exchanged views over China-U.S. economic relations.

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13. On March 24, Vice Finance Minister Shi Yaobin met with Jonathan Taylor, the Vice President of the EIB, and exchanged views over the enhanced cooperation between China and the EIB.

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14. On March 28, Finance Minister Lou Jiwei met with Timothy Geithner, the former Secretary of Treasury of the U.S. and the President of Warburg Pincus, and exchanged views over global economy and Chinese economy.

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15. On March 30, Finance Minister Lou Jiwei attended and addressed the video Conference for the Roll-out of the Pilot VAT Reform held by MOF and SAT in Beijing. The meeting was tasked to implement the decision of the Executive Meeting of the State Council on March 18, gear up the fiscal and tax authorities for the reform, and ensure the smooth implementation of the reform on May 1.

## IV. Local Finance

### 1. Zhoukou City, Henan Province took measures to promote agricultural insurance reform

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According to the news released by the Finance Department of Henan Province on March 1, Zhoukou City has been advancing rural financial reform and promoting agricultural insurance. (1) Establishing a leading group headed by the deputy mayor and with members from fiscal and financial authorities. (2) Creating an agricultural insurance operating mechanism fit for rural circumstances and with both policy and commercial nature, and raising the capacity to deliver covered services. (3) Requiring the Zhongyuan Agricultural Insurance Corporation to move faster to improve the grass-root service network of agricultural insurance. (4) With guidance from the government and by following a market-determined, voluntary and coordinated approach, introducing new insurance products to support the development of agricultural products with specialty and to offer greater variety of insurance products. (5) Guiding the Zhongyuan Agricultural Insurance Corporation to prioritize its investment in rural infrastructure, major public-welfare projects and new agribusiness entities. (6) Conducting performance evaluation and enhancing oversight and accountability.

### 2. The Finance Bureau of Changsha

### **City, Hunan Province has created a comprehensive and multi-layered cyber security system to ensure the security of fiscal funds and information**

According to the news released by the Finance Department of Hunan Province on March 3, in recent years, the Finance Bureau of Changsha City has created a comprehensive and multi-layered cyber security system to ensure the security of fiscal funds and information. (1) Establishing a long-term mechanism for cyber security and regulating the procedures for exclusive network access, terminal management and network troubleshooting to ensure the security of network and data. (2) Further applying the authentication and authorization management system across the city. (3) In accordance with the requirements set out in documents published by MOF and the Finance Department of Hunan Province, conducting the grade III protection evaluation of the information system, and upgrading the security management equipments on the basis of the evaluation results. (4) Using the database security audit system to track all access and operation to the database. (5) Creating a local backup system for fiscal data as well as an off-site disaster-tolerant backup system in Shaoyang City.

### **3. Guangzhou City, Guangdong Province strengthened local government debt management**

According to the news released on March 9 by the Finance Department of Guangdong Province, the municipal government of Guangzhou steadily promoted reforms on government debt

management in recent years, which effectively prevented and defused debt risks. (1) Issuing a series of management documents to cover the government debt under fiscal supervision and standardize the financial management of the debt. (2) Submitting the annual plan of government debt to the standing committee of the Municipal People's Congress for its review and simultaneously webcasting it to the public. (3) Conducting bond swap to reduce the cost of debt from 5.5% to around 3.5%, equivalent to 2 billion RMB of interest saved annually. (4) Conducting a comprehensive stock-taking of existing debt, and reducing government debt by coordinating existing fiscal funds and tapping idle land resources. Efforts were made in rationally differentiating non-operational and operational debt; accelerating the development of idle land of municipal SOEs; and strengthening the monitoring and guidance over district government debt.

### **4. Finance authorities in Sichuan Province increased financial support to pre-school education**

According to the news released on March 10 by the Finance Department of Sichuan Province, fiscal input to pre-school education will be increased in 2016. The annual planned input was 830 million RMB, growing by 270 million RMB over last year, an increase of 48.2%. (1) In 2016, children of ethnic autonomous regions and profiled low-income families of the province will be exempt from nursing fees at kindergartens on a verified basis. The nursing fees in poverty counties at four main areas are to be reduced by 20%, up from the previous 10% deduction. (2) Enhancing support to

urban kindergartens and private kindergartens. An additional 50 million RMB is to be mainly used for the expansion and renovation of urban kindergartens. (3) Advancing institutional innovation in providing fiscal support to pre-school education. Private investors are encouraged to participate in piloting public welfare kindergartens through procurement of pre-school services and public support for private organizations.

## 5. The Finance Department of Jilin Province adopted four measures to tackle poverty

According to the news released on March 11 by the Finance Department of Jilin Province, the provincial finance authorities adopted measures to tackle poverty. (1) Increasing provincial fiscal transfer payments to poverty-stricken areas and old revolutionary bases, and prioritizing investment in infrastructure construction and public services in poor areas. (2) Raising 500 million RMB every year to foster economic and social development in poor areas by supporting infrastructure construction and production. (3) Urging municipal and county level authorities to make coordinated arrangement for provincial earmarked funds based on specified targets for poverty reduction, and emphasizing the use of market-oriented approach. (4) Disclosing the annual plan of earmarked funds for poverty reduction, the supporting target and capital amount, for the review and supervision of the general public.

## 6. Finance authorities of Shanxi Province have been making full use

## of public finance to support people's livelihood

According to the news released by the Finance Department of Shanxi Province on March 15, it has been making full use of public finance to support people's livelihood and to promote stable social and economic development. (1) It made advance allocation of fiscal funds and transfer payment to cities and counties, expedited the approval of budget, sorted out the surplus and carryover funds, made more efficient use of funds, and aggressively cut back on the general expenditures. (2) It created a special fund to guide PPP investment to improve the urban living environment in Shanxi. (3) It decided on the credit rating agencies for government bonds in 2016 and moved faster for the bond issuance. (4) It raised 4.39 billion RMB of registered capital through bond issuance and set up the Shanxi Poverty Reduction and Development Company. (5) It stepped up efforts to implement policies that can bring benefits to the people.

## 7. Chongqing Municipality has introduced preferential policies to support rural migrant workers to return home to start business

According to the news released by the Finance Bureau of Chongqing Municipality on March 16, to better guide rural migrant workers to return home to start their business, Chongqing Municipal Government has published the *Implementing Plan for Encouraging Rural Migrant Workers and Other People to Return Home to Start Business*. (1) If the start-ups in the business incubation center stay in business for over a year and create



certain number of jobs, the incubation center will receive special funds as subsidies. (2) The start-ups or new agribusiness entities created by those returnees will receive up to 150,000 RMB of secured start-up business loans and interest subsidies, and a special fund will be set up to compensate for the risks associated with those loans. (3) Different sorts of funds that are used to support start-ups will be consolidated, and a special fund will be created to give subsidies to the logistics, premise renting, water, electricity and internet expenses of start-ups and finance the training and learning of those that start their business. (4) Starting from the date of their registration, the micro enterprises and the encouraged SMEs created by the returnees will receive, for two years, tax credits for their corporate income tax, business tax and the locally retained VAT.

## 8. Finance authorities in Shandong Province adopted 45 initiatives to eliminate poverty in the province

According to the news released on March 21 by the Finance Department of Shandong Province, the Department has issued the *Implementation Opinions on Promoting the Leading Role of Government Investment in Eliminating Poverty in the Province*, to provide solid financial and policy foundation to rid the province of poverty by the end of 2018. (1) The expenditure structure is to be optimized. Earmarked funds for poverty reduction should be increased substantially to ensure the annual growth of the funds to be significantly higher than the growth of fiscal revenue. (2) The earmarked poverty alleviation funds are allocated to specific counties mainly based on

the population under poverty line and per capita financial resources, and to be used by county level authorities at their own discretion. (3) Various funds to fight poverty such as earmarked funds, industrial supporting funds and development funds should be coordinated based on root causes of poverty at various localities and local conditions. (4) The provincial finance department is to establish a joint meeting system on poverty reduction and development to coordinate and give guidance to the initiatives supported by fiscal resources, and supervise the implementation of various policy measures.

## 9. The Finance Department of Yunnan Province provided new guidance to the municipal finance authorities in their work to support auditing

On March 22, according to the news released by the Finance Department of Yunnan Province, four requirements were given to municipal finance bureaus of the province. (1) The finance authorities should better understand the importance of and enhance support to related auditing work, so as to improve fiscal administration of the province. (2) Efforts should be made to win over auditing authorities' understanding and support in major fiscal policies and initiatives, so as to promote synergy. (3) When irregularities are uncovered by auditing, serious corrective measures should be adopted. (4) Laws and regulations such as the *Budget Law* and *Rules on Strengthening Administration of Fiscal Funds by the People's Government of Yunnan Province* should be rigorously implemented to heighten financial discipline and supervision.



## 10. Chongqing Municipality established the platform for the transaction of public resources featuring Internet +

According to the news released by the Finance Bureau of Chongqing Municipality on March 29, Chongqing has introduced the *Plan for Establishing an Integrated Platform for the Transaction of Public Resources* to make the transaction more regulated and transparent and further enhance the efficiency and effectiveness of the allocation of public resources. (1) Consolidate the existing transaction platforms through Internet + to create an integrated electronic transaction information system. (2) Basically complete the consolidation before the end of June 2016, and put in place a standardized, open, transparent, efficient, well-regulated and supervised system for the transaction of public resources. (3) The platform is organized along municipal and district (county) levels on account of local administrative circumstances. (4) Transaction service function and transaction oversight function shall be separated and one shall not be subordinate to the other. (5) Build a tiered supervision system, have a defined line of responsibility, and enhance oversight accountability of government agencies.

## 11. The Finance Bureau of Hohhot, Inner Mongolia Autonomous Region took five measures to ensure the sustained and stable development of economy and society

According to the news released by the Finance Department of Inner Mongolia Autonomous Region on March 30, to adapt to the new normal

of economic growing, the finance authorities of Hohhot have taken multiple measures to boost the social and economic development of localities by leveraging the role of fiscal funds. (1) Step up support to priority areas and set up special funds to guide the development of industrial and service sectors. (2) Create a platform for communication and cooperation among finance authorities, banks and businesses, support key businesses to expand production, and boost tertiary industry such as cloud computing, tourism and logistics. (3) Implement supportive fiscal and tax policies and encourage businesses to phase out outdated production capacity, digest excess capacity and advance merger and reorganization. (4) Actively support counties and districts to operationalize new key projects, accelerate the timetable of development zones and industrial parks, and boost the headquarters economy. (5) Assess the trend of fiscal revenue, regulate the collection of non-tax revenue, improve the incentive-disincentive mechanism, and ensure fiscal revenue is collected to the fullest extent possible.

## V. Remarks and Opinions

### 1. Lou Jiwei: strengthening international cooperation and coordination to jointly counter global economic challenges

In his recent address, Finance Minister Lou

Jiwei said that with the hard efforts, coordination and communication of all parties, G20 Finance Ministers and Central Bank Governors Meeting reached consensus on key issues, basically met the expectation of China, helped secure the major deliverables of this year's G20 finance track, and defined the timetable and roadmap for the work of the next phase. The meeting has the following highlights. (1) It reached agreement on the assessment of the state of macroeconomy, sent a positive signal to the outside world, and boosted market confidence. The price volatility of stock, bond, commodity and gold during the Lunar Chinese New Year showed the bearish sentiment of global investors on economic outlook, but the overall view at the meeting was that the magnitude of the recent market volatility did not reflect the underlying fundamentals of the world economy. We expected activity to continue to expand at a moderate pace in most advanced economies and growth in key emerging market economies to remain strong. The representatives at the meeting also agreed to confront the problems and risks squarely and avoid exaggerating the problems. (2) We agreed on policy responses and committed to use all policy tools—monetary, fiscal and structural—individually and collectively to foster confidence and preserve and strengthen the recovery. Given the variations of growth trend, economic situation, monetary policy space, policy urgency and political environment among countries, there were diverging views among G20 members in this regard, hence the different priorities underscored by different countries. (3) We agreed on the importance of structural reform, and secured two outcomes proposed by China, i.e. developing a set of priorities and guiding principles for structural reform and creating an indicator system to measure the progress of structural reforms. G20 started to notice structural reform in 2009 and

intensified its focus since then, but this is the first time that structural reform has been elevated to the current level. (4) We reached agreement on the reform of the global economic governance system, and would continue to push forward the international financial architecture reform and enhance the coordination of international tax, green financing, climate finance and counter-terrorist financing. With coordination among G20 parties, we added new elements to this year's G20, for example, we, for the first time, made green financing and counter-terrorist financing the formal agenda items of the G20 finance track. We hoped to consolidate the previous reform outcomes, continue to advance the reform agenda and improve the global economic governance framework. As the constructor and participant of the global economic governance system, China does not want to unravel the existing system and create a new one to replace it. However, as the existing system fails to reflect the changes in the world economic governance landscape and some aspects are ill-suited for the new developments, it is important to reform and improve it in a constructive way.

## 2. Li Keqiang: accelerating shifts in driving forces for development to promote steady, effective and high performance of China's economy

In his remarks on March 6, Premier Li Keqiang pointed out that faced with complex domestic and international situation and various challenges, China has the capacity and condition to maintain sustained and stable economic and social development. There was considerable leeway for macro-control policies, and room for innovative regulatory tools. Measures adopted last year were still effective in maintaining growth, promoting reform, adjusting economic

structure, and delivering benefits to people's livelihood. All those would contribute to maintaining a medium-high rate of growth and promoting the development of industries towards medium-high end. The key, as emphasized by the Premier, lies in fostering new driving forces for growth and the new economy. We should support innovative, coordinated, green, open and shared development, push forward structural reforms, especially on the supply-side. Following the global trend of a new round of scientific revolution and industrial evolution, we should implement the strategy of innovation-driven development, encourage the public to start businesses and make innovations to tap into their potential of creativity, and promote integrated progress of Made in China 2025 and Internet +. With revolutionary new technologies as well as emerging industries and business models, we could upgrade traditional growth engines, resolve excessive capacity in an orderly manner, and make advanced manufacturing and modern services pillars for the national economy. When the economic engines shifted smoothly from traditional ones towards new ones, the double engines would take the Chinese economy to steer on a more solid, more sophisticated and steadier track. The key for the shift was to deepen reforms by building scientific and institutional platforms and engaging various market players. When various sizes of enterprises, higher learning institutions and entrepreneurs were well connected through the platform of synergy, new business model would emerge and the sharing economy would grow. With active participation of private investors and firms, the gene of innovation would grow across the board, helping to improve the performance and upgrade China's economy. The shift of driving forces required accelerated transformation of government functions to streamline administration, delegate more power,

improve regulation and provide better services, all in a bid to encourage entrepreneurship and innovation and foster a market environment with fair competition and facilitated access. We would take measures to reduce tax and fees to ease the burden for businesses, so as to make them more competitive. In the work of the government, we would prioritize weak links most concerned by the people such as education, medical service, housing, social security and food security, ensure people's basic livelihood, speed up efforts in tackling poverty, so as to enhance people's sense of benefit in society when building a moderately prosperous society in all respects.

### 3. Lou Jiwei: higher deficit won't trigger government debt risks

In his remarks at the press conference during the fourth session of the 12th NPC on March 7, Finance Minister Lou Jiwei said that there was room for China to increase its deficit. According to the budget report, the fiscal deficit for 2016 was projected to be 2.18 trillion RMB, an increase of 560 billion RMB over last year, raising the deficit-to-GDP ratio to 3%, 0.6 percentage point higher than in 2015, making it the highest deficit since we launched the reform and opening-up. It was difficult to gauge the appropriate size of deficit. China has certain room, but there was a limit. The fiscal revenue of China accounted for around 30% of GDP, below the average in the international community, and far below that of the developed economies. Therefore, we could afford a higher deficit. A properly increased deficit could help to sustain medium to high rate of growth and support structural reform. The fiscal priorities in 2016 were to ensure input in key areas, optimize investment structure, and support people's livelihood. We

would strictly control the growth of “three official expenses”<sup>1</sup>, and cuts would be made to those costs if necessary, so as to ensure spending on basic public services and key welfare programs. Minister Lou noted that during the process of optimizing the expenditure structure, timely measures were to be adopted to, based on rational evaluation, reduce policy related expenditures or unsustainable investment over-committed during the high revenue period. Meanwhile, re-balancing transfer payment should be increased to empower local and provincial government with greater discretionary financial resources. With government debt hovering around 40% of GDP, it was well within the safe zone compared with other countries. The central government debt, in particular, totaling 11 trillion RMB, was considerably low in relation to the GDP. There was room for the central government to issue debt. The key is to make the debt properly regulated. To ward off government debt risks, it was crucial that local governments should not incur additional debts beyond stipulation of the *Budget Law*. Two issues deserved special attention. First, we should keep a lid on the debt for which the local government is liable. Such debt might rise when the economy slowed down. Second, local government should be forbidden to take on more debt through various circumvention and disguise, and regulations have to step up in this regard. In this year’s report on the work of the government, there was a specific timetable for the piloting reform of replacing business tax with VAT to be rolled out to all sectors starting from May 1. It was on the must-do list of the year. Currently the piloting measures were still to cover construction, real estate, financial and consumer services

industries, which were the toughest areas for the reform. Due to the complex situation of the reform and challenges on fiscal revenue, the reform was not extended across the board in 2015.

#### 4. Shi Yaobin: continuing the efforts to innovate and advance the international economic and financial cooperation

In his recent address, Vice Finance Minister Shi Yaobin said that China has become the world’s second largest economy, the biggest exporter and a major country with huge foreign exchange reserve, commanding increasing influence on the world stage. Particularly since the outbreak of the global financial crisis, China has been moving faster to the center stage of global affairs. Recognizing China’s strength, some developed countries are asking China to take on more international responsibilities and obligations, and some developing countries are also expecting more from China. Against this backdrop, the leadership at MOF proposed the concept of “public finance for China as a major country”. Guided by this concept, MOF has been actively engaging in international economic and financial cooperation and achieved fruitful outcomes. (1) It actively involves in bilateral and multilateral economic and financial dialogues which have seen increasingly higher level and greater influence. (2) It engages in cooperation with the World Bank, the ADB, foreign government lenders as well as other bilateral and multilateral lending institutions; it also created new MDBs such as the AIIB and

1 The “three official expenses” refer to official overseas travel expense, official hospitality expense and official vehicle expense.

the NDB. The establishment of the AIIB and the NDB is unprecedented and calls for extremely arduous efforts. To evolve from vision to reality, the AIIB went through 8 rounds of negotiations, numerous discussions and consultations; the NDB underwent 7 rounds of negotiations and several multilateral and bilateral dialogues. The creation of these two MDBs is of great significance at both national and international level. This is a “win-win” move as it not only supports global recovery, promotes regional infrastructure and economic development, and demonstrates the efforts of China to take on more international responsibilities to complement and improve the existing global economic system, but also aligns to China’s general diplomatic strategy of “focusing on the Asia Pacific and projecting into the surrounding areas” and facilitates Chinese capital, industries and talents to “go global”. “Public finance for China as a major country” means that we cannot afford to be inward-looking, instead, we need to take into account and use the markets, resources and rules at both domestic and international level, put the formulation of economic and financial policies under the context of global governance, actively involve in the reform and rule-setting of the global economic governance system and maintain the global economic order to foster an enabling external environment for China’s development. Going forward, we need to earnestly implement this concept, and play a more active role in international economic and financial cooperation with a view of preserving and enhancing the national interests; make good use of bilateral and multilateral dialogue mechanisms and China’s cooperation with bilateral and multilateral lending institutions to promote the institutional innovation at home and expand external space for China’s development; and leverage the resources from

bilateral and multilateral channels to advance fiscal and tax reform and build up the capacity of officials in the public finance system.

## 5. Zhou Xiaochuan: reducing leverage through the development of capital markets

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In his recent marks during the China Development Forum, the Chinese central bank governor Zhou Xiaochuan gave three observations on the cause of high leverage in China. First, China has a high national savings rate. The usual ratio of national savings to GDP is about 20%-30%, while the aggregated savings ratio in China was over 46% last year, among which 35% was contributed by the household sector. There are multiple reasons for the high savings rate, but with such huge savings, it is just normal for business to have high level of debt financing through banks and bonds. If China’s corporate debt is higher than that of other countries, it would not be surprising. Second, China is a late starter in equity market. There was no stock market until early 1990s. With such a short history, the proportion of financing from capital markets is small. Private equity financing is also relatively weak. Third, the Chinese are getting rich fast since the reform and opening-up, but the accumulation of private wealth is relatively small, so the amount of private-money-turned equity is also small. As a result, the businesses are having a high level of borrowing. Heavy debt across the board may lead to macro risks. There are a variety of approaches to resolve such risks, one of which is to accelerate the development of capital markets. Such development can channel more private savings to equity financing, so as to help to reduce the debt-GDP ratio and debt-equity ratio.

## 6. Zhu Guangyao: global economic uncertainties have increased

In his recent address, Vice Finance Minister Zhu Guangyao identified 8 headwinds faced by the world economy. (1) Global economic recovery remains sluggish and uneven, and downside pressure keeps mounting. In early 2016, IMF lowered its forecast for global growth in 2016 from 3.6% to 3.4%, which implies that the global economic situation is grimmer in 2016 than in 2015. (2) Global trade growth continues to lag behind global economic growth. The average growth of global trade has been faster than that of global economy in the past 20 years, but in recent years, the annual growth of global trade has fallen below that of global economy. (3) Global employment rate has yet to bounce back to the pre-crisis level. In the longer run, high unemployment rate will have adverse effect on state, and also jeopardize social stability by providing the breeding ground of terrorism. (4)

Global interest rate is at the lowest level since the Second World War, and poses more complex, grave and challenging problems when global economy situation, political ecology and social ecology are at play. (5) There is severe divergence of monetary policy among major advanced economies. The Federal Reserve of the U.S. embarked on the normalization of interest rate policy in December 2015, while ECB decided to further expand QE on March 10, 2016 and BOJ adopted negative interest rate and pressed ahead with QE. (6) Commodity prices continue to drop. The decline will persist in 2016 and is expected to be less sharp and intense than in 2015. (7) Emerging market economies are facing increasing pressure. For example, except for China and India which still maintain robust growth, both Brazil and Russia have slipped into recession in 2015, and South Africa posted subdued growth. (8) Geopolitical risks are escalating and the world has entered the most challenging period since the end of the cold war.

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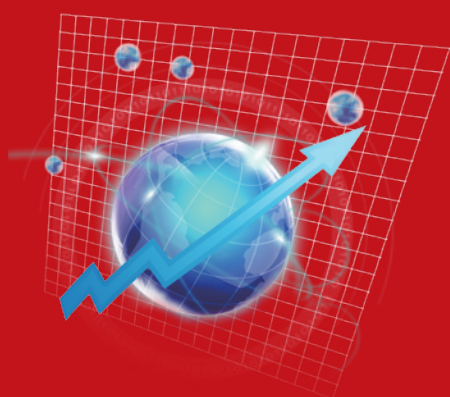
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