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HIGHLIGHTS

- Finance Minister Lou Jiwei: “replacing business tax with VAT” reform is an important step forward in China’s structural reform
- Finance Minister Lou Jiwei and Governor Zhou Xiaochuan co-chaired the G20 Finance Ministers and Central Bank Governors Meeting in Washington, D.C.
- MOF published a circular on the computation of deed tax, real estate tax, land VAT and personal income tax after the VAT reform
- The State Council published the *Priority Tasks for Deepening the Reform of Medical and Health System in 2016*
- China’s GDP in Q1 of 2016 rose by 6.7% year on year
- “Three public expenses” in 2015 and the budget arrangement in 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.

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I. Policy Update

1. MOF issued a circular on processing application for financial discounts of loan by businesses in their efforts to upgrade the quality of refined oil

On April 6, the Ministry of Finance (MOF) issued a circular on processing applications for financial discounts of loans by businesses in their efforts to upgrade the quality of refined oil. (1) The discount rate is subject to the annual budget and below the benchmark rate set by the People's Bank of China (PBOC) for similar loans during the same period. The discount is applicable for loans incurred during 2015-2017. (2) In the beginning of each year, the applicant business shall present its application to, through the chain of reporting, the home provincial energy and finance authorities, together with relevant credentials such as the contract and receipt of bank loans. (3) The National Energy Administration (NEA) shall commission independent third parties to evaluate the qualification of applications, and publish qualified discount recipients after due process of public comment. (4) The NEA is to conduct supervision and inspection on discount recipients in the progress of upgrading the quality of refined oil.

2. MOF issued a circular on tax policy for certain national reserve commodities

On April 6, MOF issued a circular on tax policy

for certain national reserve commodities. (1) The commodity reserve and management companies and their direct affiliates are exempted from stamp tax on their financial accounting books as well as on procurement and sales contracts for commodity reserve related transactions. The other parties of the contracts are subject to statutory stamp duty. (2) The commodity reserve and management companies and their direct affiliates are exempted from the property tax and urban land use tax on their real estates and land used for commodity reserve business. (3) For tax levied after January 1, 2016 which is eligible for exemption should be discounted from payable taxes of the taxpayer. (4) Qualified businesses should present relevant credentials to tax authorities for the filing of tax relief procedures based on related requirements.

3. The State Council specified priorities for the medicine and health reform in 2016

On April 6, Premier Li Keqiang chaired the Executive Meeting of the State Council and identified priorities for the medicine and health reform in 2016. (1) Expand comprehensive piloting reform for urban public hospitals from 100 cities to 200 cities. (2) Roll out piloting programs for hierarchical medical system to 70% of prefecture-level cities across the country. In-service or retired attending doctors in public hospitals are encouraged to offer service in grass-roots medical institutions or clinics. (3) Improve the compensation mechanism by removing medicine markups in piloting urban

public hospitals. Excessive medical tests are strictly controlled. (4) Promote centralized medicine procurement in public hospitals. Establish traceability mechanism to the factory price of pharmaceuticals by adopting a “double-invoice” regime, i.e. requiring invoice from the manufacturer to wholesale supplier and from the supplier to hospitals and clinics, thus enhancing the transparency of intermediary markups. (5) Encourage pilot cities to design aggregated determination measures for performance related pay in public hospitals. Incentive income mechanism should be established to link job responsibility with performance. (6) Promote the development of national basic medical insurance network and portable medical billing across regions.

4. MOF issued the *Interim Measures for the Administration of Fiscal Funds for Comprehensive Improvement of Rivers, Lakes and Reservoirs*

On April 8, MOF issued the *Interim Measures for the Administration of Fiscal Funds for Comprehensive Improvement of Rivers, Lakes and Reservoirs*. (1) The earmarked funds are under joint jurisdiction of MOF and the Ministry of Water Resources (MWR). (2) The funds are used for improvement of medium and small rivers, comprehensive renovation of key counties, construction of small reservoirs, and better connectivity among rivers, lakes and reservoirs. (3) The funds are allocated mainly through the multiple factor method. Lump-sum grants are provided to major construction projects approved by the CPC Central Committee and the State

Council, and also allocated to certain project-specific outlays. (4) Project-specific funds are to be jointly endorsed by MWR and MOF, with clear specifics for the applicants, types of projects and application terms. (5) MOF and MWR are to conduct joint evaluation on the performance of the funds. The valuation results are important factors in the fund allocation. (6) The budget of the funds is provided through statutory procedures by MOF after consultation with MWR.

5. MOF published the *Interim Measures for the Performance Assessment of the Special Funds for Urban Pipeline Network*

On April 8, MOF published the *Interim Measures for the Performance Assessment of the Special Funds for Urban Pipeline Network*. (1) MOF, the Ministry of Housing and Urban-Rural Development (MOHURD) and other competent authorities shall be the principal agencies for overseeing the performance assessment exercise. (2) MOF, in conjunction with MOHURD and other ministries, will review the performance targets submitted by the provincial government departments. (3) MOF, in conjunction with MOHURD and other ministries, will develop assessment indicators and standards on the basis of the specific purposes of the special funds. (4) MOHURD will work with relevant government agencies in conducting the performance assessment and make annual assessment when necessary. (5) MOHURD will aggregate the assessment reports and submit the reports, along with its recommendations on the use of the assessment results, to MOF. (6) The assessment

results will serve as important basis for rewards and penalties. (7) The provincial-level finance as well as housing and urban-rural development authorities shall enhance their supervision over the use of the funds and develop a provincial-level assessment mechanism with reference to the *Interim Measures*. (8) Finance, housing and urban-rural development authorities and other competent authorities shall strengthen the monitoring over the execution of the budget of the special funds and see to the realization of the performance targets.

6. MOF published a circular on the 2016 pilot localities for the treasury cash management scheme

On April 12, MOF published a circular on the 2016 pilot localities for the treasury cash management scheme. (1) The pilot localities shall implement the scheme by strictly following the *Measures for the Pilot Treasury Cash Management Scheme in Localities* after completion of record-filing with MOF and PBOC. (2) The pilot localities shall strictly comply with the operational procedures and timely submit their monthly operation plan and detailed information of each operation. The announcement for bids and bidding results shall be made public in time. (3) The pilot localities shall handle pledging in strict accordance with rules. Local government bonds are not subject to the restrictions on issuing entities and can allow for cross-jurisdiction pledging, and pilot localities shall not designate the specific types of pledges. (4) The pilot localities shall take into account the progress of interest rate liberalization, actively control the financing costs, guide financial institutions to determine their bid rate for treasury

cash deposit on the basis of costs and risks and within the agreed range in the provincial market, and further improve the mechanism for the formation of the bid rate.

7. MOF published the explanations to the notes regarding the relevant goods in the *Catalogue of Goods Imported through Cross-border E-commerce Retailing*

On April 13, MOF published the explanations to the notes regarding the relevant goods in the *Catalogue of Goods Imported through Cross-border E-commerce Retailing*. (1) On the notes of “except those that shall be registered in accordance with the *Food Safety Law* but have not been registered” under the item of “formula milk powder”. As the formulation of the *Measures for the Formula Registration of the Infant Milk Powder Products* is still in the works, the certificate of formula registration is currently not required for the import of infant formula milk through cross-border e-commerce retailing. (2) On the notes of “except the cosmetics that are imported for the first time” under the item of “cosmetics”. From now on, the cosmetics imported through cross-border e-commerce retailing shall be the products that are licensed in accordance with relevant regulations.

8. MOF published the *Guiding Opinions on the Appraisal of the Intangible Assets of Cultural Enterprises*

On April 14, MOF published the *Guiding*

Opinions on the Appraisal of the Intangible Assets of Cultural Enterprises. (1) The appraisal shall consider the impact on the value of intangible assets brought by the social benefits generated by different types of cultural enterprises, which may manifest in the forms of political guidance, cultural creation and service, audience feedback, social influence, internal institutional and team building. (2) The appraisal is required to highlight the characteristics of cultural enterprises, define the scope and features of the different types of intangible assets in cultural industries, and assess all sorts of factors that need to be considered. (3) The *Opinions* will provide guidance on the practice of appraisal and put emphasis on operability. Some of the provisions provide examples to illustrate the classic cases of cultural enterprises, helping provide tailored guidance for the real-world appraisal. (4) The *Opinions* are aligned to the promulgated “1+3” framework of standards for intangible asset appraisal and the recently issued *Guidelines on the Appraisal of Intellectual Property Right Assets*.

9. MOF issued a circular on the 2016 application of water connectivity projects among rivers, lakes, and reservoirs

On April 16, MOF issued a circular on the 2016 application for water connectivity projects among rivers, lakes, and reservoirs. (1) The projects for application include: water diversion among rivers, lakes and reservoirs, waterway dredging, construction and revamping of sluices, ecological slope revetment, water ecology system protection and restoration, etc. (2) The projects under

application should be catering to genuine demand, ecologically secure and sustainable, and consistent with the development requirements for relevant drainage basin and region. The projects should be focusing on addressing water-related ecological problems in urban and rural areas, while taking into account the allocation of water resources, water safety and flood control and drainage. The preliminary design report of the projects has been approved. The projects are not included in the overall planning for small and medium river management, and not supported by the central infrastructure fund or other funds. (3) The applicants should be city-level or country-level water administration agencies. The application paperwork is to be strictly reviewed by provincial water authorities in conjunction with finance authorities.

10. MOF released a circular on tax collection requirements before expanding the VAT pilot program

On April 18, MOF released a circular on tax collection requirements before expanding the VAT pilot program. (1) Local authorities should fully recognize the importance of easing tax burden for enterprises in enhancing their indigenous strength. (2) Tax authorities should not adjust levy schedules to make advanced tax collection prior to the existing month or quarter. Deductible input tax or tax returns under VAT should be deducted or returned accordingly. Except for standard procedure, tax-collection campaigns targeting tax arrears should be strictly prohibited. Tax authorities should not ask taxpayer to pay excess or

advance taxes before May 1 and then return the tax after May 1, nor deliberately refuse to provide VAT invoice or require redundant invoice procedures, nor collude with enterprises to adjust the financial books. (3) After the roll-out of VAT pilot program, overdue taxes by taxpayers incurred before May 1 should be levied by local tax authorities, and state authorities which take over the jurisdiction over the taxpayer should support the collection of tax arrears. (4) Tax and finance authorities should intensify supervision in conjunction with other competent authorities.

11. The State Council issued the 2016 Guidelines on the Public Disclosure of Administrative Information

On April 19, the State Council issued the *2016 Guidelines on the Public Disclosure of Administrative Information*. (1) Further promote reform and enhance administrative transparency. Government agencies should further disclose the list of their administrative authorities and responsibilities, enhance transparency of market regulation and supervision, and disclose more public service related information. (2) Promote public disclosure to foster economic development. Economic and social policy related information should be more open and transparent, including negative list for market access, major construction projects with government investment, allocation of public resources, reduction of taxes and administrative fees, and regulation on the operation of state-owned enterprises. (3) Information relating to people's livelihood should be made more public, including poverty reduction efforts,

social assistance, incentives for job creation and entrepreneurship, renovation of urban shantytowns and rural dilapidated housing, development of affordable housing, as well as information related to environmental protection, education, health, and food and drug safety. (4) Enhance transparency to boost capacity building of the government. Efforts should be made to promote public disclosure on decision-making, policy implementation and budget designing and final auditing.

12. MOF issued a circular on measures to further promote shantytown renovation

On April 19, MOF issued a circular on measures to further promote shantytown renovation. (1) Finance authorities at all levels should focus on speeding up the renovation of shantytowns as required by the State Council, actively raise funds and make co-ordinated arrangements to ensure smooth implementation. (2) Strictly implement tax incentives to effectively reduce the cost of shantytown renovation. (3) Provide cash compensation for the relocated residents from shantytowns to accelerate de-stocking of commercial housing. (4) The procurement should strictly follow the rules and procedures of government procurement, in order to prevent black-box operation and corruption. (5) Promote the government procurement of shantytown renovation related services, and coordinate with loan extension for related work. (6) Financially-challenged cities and counties with heavy task load of shantytown renovation should be the main recipients of relevant subsidies. The subsidizing fund is to be raised by provincial government

by issuing bonds on local governments' behalf. (7) Discounted loans are provided to shantytown renovation efforts to attract private capital. (8) The earmarked funds should be used for intended purpose only, no institution or person may obstruct or misappropriate the funds. (9) Performance evaluation is to be carried out to raise the social and economic returns on shantytown renovation.

13. MOF issued a circular on phased reduction of the social insurance rate

On April 21, MOF issued a circular on phased reduction of the social insurance rate. (1) Starting from May 1, 2016, provinces (autonomous regions and municipalities) with employers' contribution rate for employees' basic pension of over 20% should lower the rate to 20%; provinces (autonomous regions and municipalities) with the rate of 20% and an accumulated pension fund covering up to 9 months of pension outlays as of the end of 2015 may reduce the employers' contribution rate to 19%. (2) Starting from May 1, 2016, the total unemployment insurance rate, which was already cut by 1 percentage point in 2015, may further lowered by 1%-1.5%, with individual contribution rate dropping under 0.5%. The reduced rate is temporarily set for the next two year. (3) Various localities should continue to implement the decision of the State Council in 2015 to reduce the average occupational injury insurance rate and maternity insurance rate by 0.25 and 0.5 percentage point respectively.

14. The State Council gave guidance on pro-poor transport infrastructure development

On April 21, Premier Li Keqiang chaired the Executive Meeting of the State Council, which identified the following measures. (1) Launch the program of building one million kilometers of highway in rural areas to provide highway and passenger car connections to all towns and villages, reconstruct dilapidated roads and bridges, and improve transportation system for tourism development in poverty-stricken areas. (2) Launch the program of building 100 expressways, railways and airports, in an effort to connect all the counties with secondary and above highways, and basically cover all municipal (prefecture) administrative centers with railways and highways. Fill the linkage gaps of highway in boundary areas. Increase fiscal and taxation support, emphasize both construction and maintenance, and improve the long term investment and management mechanism. The above mentioned programs are designed to stimulate investment, create jobs, support poverty alleviation through better transportation, so as to deliver benefits to millions of people.

15. The State Council published the opinions on supporting poor counties to make consolidated use of agriculture-related fiscal funds

On April 25, the State Council published the opinions on supporting poor counties to make consolidated use of agriculture-related fiscal

funds. (1) The central and provincial finance authorities shall optimize the composition of transfer payment, significantly increase transfer payment to poor regions, and expand the size and proportion of general transfer payment to enhance the fiscal capacity of poor counties. (2) On the basis of the increased poverty reduction funds, the central, provincial and city-level finance authorities shall tilt towards poor counties in disbursing the poverty reduction funds. (3) Poor counties shall align themselves to the national poverty reduction plans and the specific-purpose plans of competent authorities. The funds shall be used to tackle poverty and the effects of poverty reduction shall be the primary consideration for the performance evaluation of the funds. (4) Poor counties shall explore innovative ways for poverty reduction and make full use of fiscal funds to guide and leverage more financial capital and private capital for poverty reduction. (5) Relevant authorities at central, local and city-level shall timely revise and improve rules and regulations and scrap the restrictions on the consolidated use of the funds.

16. MOF published a circular on comprehensively reforming the “three agricultural subsidies”

On April 25, MOF published a circular on comprehensively reforming the “Sannong subsidies”¹. (1) Enhance and conserve the fertility of farming land and better protect the agricultural eco-resources. (2) The subsidies

for the appropriately scaled-up crop growing will be financed by the agricultural support and protection funds and will mainly go to the major crop-growers, family farms, farmers’ cooperatives, agricultural service providers and others new agribusinesses. Instead of providing subsidies in cash, localities will be encouraged to develop innovative ways to support new agribusinesses, and subsidized loans and subsidies for the dissemination of major techniques will be used to support diversified forms of appropriately scaled-up crop growing by new agribusinesses. (3) The reform of the “three agricultural subsidies” will be overseen by the provincial government and implemented by the local finance and agricultural authorities. (4) The central fiscal subsidies for agricultural support and protection will be allotted to the provincial finance authorities in proportion to the size of farming land, crop output and appropriately scaled-up farming, while the recipients, ways and standards of subsidies will be determined by the provincial authorities on account of local circumstances.

17. MOF published a circular on the computation of deed tax, real estate tax, land VAT and personal income tax after the VAT reform

On April 26, MOF published a circular on the computation of deed tax, property tax, land VAT and personal income tax after the VAT reform. (1) The transaction price used to compute the deed tax shall exclude VAT. (2) In case of property

1 Sannong refers to agriculture, rural area and farmer.

lease, the lease income used to compute property tax shall exclude VAT. (3) The income generated through property transfer by land VAT payer shall exclude VAT. (4) The taxable income for house transfer by individuals shall exclude VAT, the VAT in the house purchase price is included in the property's original value, and the VAT paid in the property transfer is not deductible when computing the transfer income. (5) In case of VAT exemption, the transaction price, lease income and real estate transfer income shall not deduct VAT when it comes to the computation of taxes. (6) In the administration of the above-mentioned taxes, the price or income verified by the tax authorities for tax computation shall exclude VAT.

18. The State Council published the *Priority Tasks for Deepening the Reform of Medical and Health System in 2016*

On April 27, the State Council published the *Priority Tasks for Deepening the Reform of Medical and Health System in 2016*. (1) Comprehensively deepen the public hospital reform, including to improve the reform of the county-level public hospitals, expand the pilot reform of urban public hospitals, establish a scientific compensation mechanism, enhance the management system of public hospitals, accelerate the establishment of a remuneration system fit for the healthcare industry, curb the unreasonable rise of health costs, push forward the reform of the public traditional Chinese medicine hospitals, and provide nearby public-rental housing for the qualified staff of public hospitals. (2) Expedite the creation of a tiered diagnosis and treatment system, including to roll out pilot programs and to expand the service

of home doctors. (3) Strengthen and improve the universal health insurance system, including to create stable and sustainable fund-raising and benefit-adjustment mechanisms, further unify the urban and rural health insurance schemes, improve the critical illness insurance and medical aid schemes, further reform the models of health insurance payment and promote the development of commercial health insurance.

19. The State Council planned to accelerate the development of education in central and western regions

On April 27, Premier Li Keqiang chaired the Executive Meeting of the State Council which decided on the following measures for accelerating the development of education in central and western regions. (1) Ensure reasonable distribution of teaching centers and standard-based assignment of facilities and teachers. (2) Improve the standard of per-student funding and gradually waiver the tuition and miscellaneous fees for secondary vocational school students. (3) Build and renovate a batch of high schools, improve the schooling conditions in rural high schools, and waiver the tuition and miscellaneous fees for poor high school students. (4) Support the establishment of a batch of high-standard universities and disciplines and give the students in central and western regions more opportunities to access high-quality education. (5) Enhance pre-school education in rural areas and support the development of nurseries and kindergartens, particularly the private ones. (6) Tilt more policy support to ethnic minority areas and strengthen the "bilingual education" to promote the capacity of students in those areas.

II. Facts & Figures

1. China's manufacturing PMI reached 50.2% in March

According to the data released on April 1 by the National Bureau of Statistics (NBS), China's manufacturing PMI in March was 50.2%, up by 1.2 percentage points month on month. In terms of various size of businesses, PMI for large enterprises was 51.5%, 1.6 percentage points higher over the last month; 49.1% for medium-sized enterprises, up by 0.1 percentage point; and 48.1% for small businesses, rising by 3.7 percentage points. In terms of categorized indexes, the production index was 52.3%, increasing by 2.1 percentage points over the last month; new orders index was 51.4%, up by 2.8 percentage points; employees index was 48.1%, up by 0.5 percentage point; and raw materials inventory index was 48.2%, rising by 0.2 percentage point.

2. China's land transfer revenue and expenditure in 2015

According to the data released on April 5 by MOF, China's land transfer revenue in 2015 was 3.365773 trillion RMB, down by 21.6% year on year, among which, the auction proceeds and negotiated transactions totaled 2.98202 trillion RMB, down by 22.4%; after-transaction revenue was 145.518 billion RMB, down by 23.0%; the

proceeds from allocation of leveled land was 110.357 billion RMB, an increase of 17.8%; and land rental income was 127.878 billion RMB, fell by 24.4%. In 2015, funds supporting education and agricultural water conservancy and irrigation withdrawn from land transfer revenue were 43.669 billion RMB and 42.351 billion RMB, down by 33.4% and 35.6% respectively. The national outlays from land transfer totaled 3.372778 trillion RMB, down by 18.5% year on year.

3. China's CPI rose by 2.3% year on year in March

The data released by NBS on April 11 show that China's CPI rose by 2.3% year on year in March, among which, the CPI rose by 2.3% in urban areas and 2.2% in rural areas; 7.6% for food and 1.0% for non-food; 2.5% for consumer goods and 1.9% for services. Average CPI from January to March edged up by 2.1% year on year. In March, CPI went down by 0.4% month on month, among which, the figure dropped by 0.4% in both urban and rural areas; decreased by 1.8% for food and 0.1% for non-food; fell by 0.6% for consumer goods and 0.2% for services.

4. China's PPI in March fell by 4.3% year on year

The data released by NBS on April 11 show that China's PPI in March rose by 0.5% month on month, and fell by 4.3% year on year. IPI went up by 0.3% month on month, and down by 5.2% year on year. The average PPI fell by 4.8% year on

year and the average IPI decreased by 5.8% year on year from January to March. With respect to PPI, specifically, price of the means of production increased by 0.7% month on month, and down by 5.7% year on year; price of the means of consumption rose by 0.1% month on month, and dropped by 0.2% year on year.

5. China's imports and exports totaled 1.905574 trillion RMB in March

The data released by General Administration of Customs (GAC) on April 13 show that in March China's imports and exports totaled 1.905574 trillion RMB, among which, exports amounted to 1.050063 trillion RMB, up by 27.9% month on month, or up by 18.7% year on year; imports reached 855.511 billion RMB, up by 39.8% month on month, and down by 1.7% year on year. Trade surplus was running at 194.552 billion RMB.

6. Departmental budget of MOF in 2016

The data released by MOF on April 15 show that MOF's total budgetary receipts and expenditures in 2016 reached 12.223876 billion RMB. All receipts come from the disbursements of the general public budget, which totaled 11.912227 billion RMB, with 311.649 million RMB being carried over from the previous year, and none of the receipts are funded by the disbursements from the governmental fund budget. The expenditures include 1.6602365 billion RMB of general public service expenditure, 10.0263028 billion RMB of foreign affairs expenditure, 272.386 million RMB of education expenditure, 71.591 million

RMB of science and technology expenditure, 21.9303 billion RMB of culture, sports and media expenditure, 96.3338 million RMB of social security and employment expenditure, 13.5215 million RMB of agriculture, forestry and water conservancy expenditure, 61.43 million RMB of subsidized housing expenditure. 144,100 RMB of expenditure is carried over to the next year.

7. China's GDP in Q1 of 2016 rose by 6.7% year on year

The data released by NBS on April 15 show that China's initially verified GDP in Q1 stood at 15.8526 trillion RMB, up by 6.7% year on year at comparable prices. In breakdown, the value-added for the primary industry was 880.3 billion RMB, up by 2.9% year on year; 5.951 trillion RMB for the secondary industry, up by 5.8% year on year; and 9.0214 trillion RMB for the tertiary industry, up by 7.6% year on year. At the comparable prices of 2015, the increment of GDP in Q1 reached 985.1 billion RMB, up by 22.2 billion RMB year on year.

8. "Three public expenses" in 2015 and the budget arrangement in 2016

According to data released on April 19 by MOF, the "three public expenses" in 2015 were 5.373 billion RMB, of which, expense on official overseas trips was 1.743 billion RMB, expense on government vehicle purchasing and maintenance was 3.088 billion (of which, expense on vehicle purchasing was 110 million RMB and expense on maintenance was 2.978 RMB billion), expense on receptions

was 542 million RMB. The total expense were reduced by 943 million RMB from the budget figure in the beginning of 2015, among which, expense on official overseas trips went down by 195 million RMB, expense on government vehicle purchasing and maintenance dropped by 371 million RMB, and expense on receptions was cut by 377 million RMB. In 2016, the budget allocation for the “three public expenses” at the central level was 6.31 billion RMB, of which, the expense on official overseas trips is 2.027 billion RMB, expense on government vehicle purchasing and maintenance is 3.441 billion RMB (of which, expense on vehicle purchasing is 149 million RMB and expense on maintenance is 3.292 billion RMB), and expense on receptions is 842 million RMB. The 2016 budget for those expense is down by 0.1% compared with the budget at the beginning of 2015. In breakdown, the expense on official overseas trips is up by 89 million RMB, expense on government vehicle purchasing and maintenance is reduced by 18 million, and expense on receptions is down by 77 million RMB. The expense on official overseas trips is higher mainly due to increased overseas visits and more participation in international competitions in 2016. The 2016 budget increased by 937 million RMB from the actual execution figure of 2015, an increase of 17.4%, of which, expense on official overseas trips increased by 284 million RMB, expense on government vehicle purchasing and maintenance went up by 353 million RMB, and expense on receptions increased by 300 million RMB.

the operating incomes of SOEs totaled 9.94925 trillion RMB from January to March, down by 3% year on year, among which, the figure for central SOEs was 6.14105 trillion RMB, down by 4.6% year on year, and the figure for local SOEs was 3.8082 trillion RMB, down by 0.1% year on year. The operating costs of SOEs totaled 9.69913 trillion RMB, down by 3% year on year, among which, the figure for central SOEs was 5.88302 trillion RMB, down by 4.2% year on year, and the figure for local SOEs was 3.81611 trillion RMB, down by 1.1% year on year. The profits of SOEs totaled 432.3 billion RMB, down by 13.8% year on year, among which, the figure for central SOEs was 339.88 billion RMB, down by 13.2% year on year, and the figure for local SOEs was 92.42 billion RMB, down by 15.8% year on year. The payable taxes of SOEs totaled 941.04 billion RMB, down by 0.4% year on year, among which, the figure for central SOEs was 750.77 billion RMB, down by 0.5% year on year, and the figure for local SOEs was 190.27 billion RMB, up by 0.1% year on year. As of the end of March, the assets of SOEs totaled 122.51551 trillion RMB, up by 15.6% year on year; the liabilities totaled 81.20242 trillion RMB, up by 18.1% year on year; and the owners’ equities totaled 41.31309 trillion RMB, up by 10.8% year on year.

9. The performance of Chinese SOEs from January to March

The data published by MOF on April 26 show that

III . MOF Events

1. On March 29, Vice Finance Minister Shi Yaobin met with Jamal Sager, senior adviser to the vice president in charge of African regions in the World Bank, who was leading a delegation

of African national bureau directors to China. The two sides exchanged views on further strengthening tripartite cooperation in Africa and the preparation for the second African Investment Forum.

2. On April 12, Vice Finance Minister Shi Yaobin attended the Press Briefing organized by the News Office of the State Council, made a presentation on the roll-out of the pilot VAT reform, and took questions from the media.

3. On April 14-15, Finance Minister Lou Jiwei and Governor Zhou Xiaochuan co-chaired the G20 Finance Ministers and Central Bank Governors Meeting in Washington, D.C.. The meeting discussed the current state of global economy, growth framework, the international financial architecture, investment and infrastructure, financial sector reform, international tax cooperation, anti-terrorism financing, green financing and climate financing, and issued a joint communique.

4. On April 14, Finance Minister Lou Jiwei and Vice Finance Minister Shi Yaobin attended the Special Council meeting of the BRICS New Development Bank in Washington, D.C.. The meeting reviewed a report on the first batch of projects approved by the Board of Directors, and discussed the first strategy paper and expansion of members.

5. On April 14, Finance Minister Lou Jiwei visited

Washington, D.C. and co-chaired the second G20 Finance Ministers and Central Bank Governors Meeting in 2016, during which he held bilateral meetings with U.S. Treasury Secretary Jacob Lew, Federal Reserve Chair Janet Yellen, French Finance Minister Saban, Indian Finance Minister Jaitley, South African Finance Minister Gordhan, respectively, and had in-depth exchange of views. Vice Finance Minister Shi Yaobin also attended the meetings.

6. On April 16, Finance Minister Lou Jiwei attended the 93rd session of the Ministerial Meeting of the Development Committee in Washington, D.C., which was sponsored by the World Bank and IMF. UN Secretary-General Ban Ki-moon attended the meeting as a special guest.

7. On April 16, Finance Minister Lou Jiwei, as the representative of the Presidency of the G20 Finance Track in 2016, attended the Global Infrastructure Forum in Washington D.C., and delivered opening remarks along with UN Secretary-General Ban Ki-moon and the World Bank President Jim Yong Kim.

8. On April 21, Assistant Finance Minister Xu Hongcai met with Said, Deputy Head of the Parliamentary Budget Committee of Indonesia, and exchanged views over the macroeconomic situation of China and China's fiscal and tax system.

9. On April 25, Vice Finance Minister Shi Yaobin

met with Sim Ann, Senior State Minister for the Ministry of Finance and the Ministry of Culture, Community and Youth of Singapore, and exchanged views over the macroeconomic situation of China and China-Singapore economic and financial cooperation.

10. On April 26, Finance Minister Lou Jiwei met with Kimmitt, former U.S. Deputy Treasury Secretary, and Cantor, former U.S. House Majority Leader, and exchanged views over the political and economic situation of the U.S.

IV. Local Finance

1. The Finance Department of Yunnan Province adopted six initiatives to enhance fiscal performance supervision in 2016

According to the news released on April 6 by the Finance Department of Yunnan Province, six initiatives were adopted to enhance fiscal performance supervision. (1) Establish and improve a performance mechanism covering performance objectives, progress tracking, evaluation and results utilization. (2) Strengthen the leading role of performance objectives, and conduct audit and appraisal thereof to build a solid foundation

for performance supervision. (3) Guide all levels of departments in Yunnan to gradually build a multi-level performance evaluation index system, and actively explore piloting programs for interim performance evaluation. (4) Various levels of departments in Yunnan should effectively enforce supervision over budget performance throughout the whole process of budget management. (5) Establish a regular reporting mechanism for performance supervision and publish the progress reports on government portals for public oversight. (6) Establish a performance information disclosure platform to publish management progress, institutional building status and other updates.

2. Finance authorities in Shandong Province strengthened supervision to ensure safe and efficient use of poverty alleviation funds

According to the news released on April 7 by the Finance Department of Shandong Province, four measures were adopted to improve the management and supervision of poverty alleviation funds. (1) The Finance Department of Shandong Province is to establish a joint-meeting system to coordinate and guide poverty alleviation and development efforts supported by fiscal funds. (2) Clarify power and responsibilities for finance authorities at various levels based on respective features, supporting areas and management requirements of the earmarked fiscal funds and industry-specific funds for poverty alleviation. (3) Improve the management system for poverty alleviation funds and projects by specifying responsibilities and

clarifying detailed operational process, so as to cover the funds under holistic and institutional supervision. (4) Enhance tracking management of the funds, expand "one-pass" for agriculture subsidies, and roll out the grassroots digital management system for fiscal funds. Establish a regular statistical reporting mechanism for the funds, launch a performance oversight system, and heighten supervision and inspection efforts.

3. The Finance Bureau of Hengyang City, Hunan Province has created the interview mechanism in its fiscal inspection and supervision to ensure well-regulated law enforcement

According to the news released by the Finance Department of Hunan Province on April 11, the Finance Bureau of Hengyang City has created the interview mechanism in its fiscal inspection and supervision to ensure that finance authorities exercise their authority in accordance with laws and laws are enforced in a well-regulated way. (1) It called meetings and conducted interviews through various ways to enhance awareness about the importance and necessity of the interview mechanism. (2) It introduced the *Interview Mechanism of Fiscal Supervision and Inspection*, and specified that the misconducts and illegal behaviors of the supervised entities would be subject to the interview. (3) The interview would be focused on analyzing the severity and harm of the illegal behavior to help the supervised entities realize their problems so that they would understand and support the law enforcement of finance authorities.

4. Yangzhou City, Jiangsu Province used innovative fiscal measures to support mass innovation and entrepreneurship

According to the news released by the Finance Department of Jiangsu Province on April 14, Yangzhou City used innovative fiscal measures to support the public to start businesses and make innovations, which has yielded good effects. (1) In light of the information asymmetry and weak capacity for risk mitigation in financing for start-ups and innovative firms, it introduced fiscal incentives and policy guidance to make finance more accessible and affordable for those firms. (2) It improved the public service to medium, small and micro firms, and delivered financial, tax, legal and business start-up assistance services to spur innovation and entrepreneurship. (3) Starting from 2010, the finance authorities of Yangzhou have made available 100 million RMB of earmarked funds in each year to attract top-notch talents from home and abroad to start up businesses in Yangzhou. (4) The finance authorities of Yangzhou also earmarked 80 million RMB to set up the Yangzhou Property Rights Service Market and disbursed 10 million RMB to create the Yangzhou Equity Trust Center to support businesses to better access the capital market.

5. Baoji City, Shaanxi Province advocated innovative mechanisms to address financing bottlenecks

According to the news released on April 19 by the Finance Department of Shaanxi Province,

the Finance Bureau of Baoji City fully leveraged fiscal resources to attract capital from financial institutions and private sector in priority areas. (1) Establish the Baoji Municipal Venture Capital Investment Guidance Fund. The fund was structured as limited partners with a parent fund and subsidiary funds. The parent fund was established by the municipal finance authority with capital of 1 billion RMB. The capital pool for the first subsidiary funds was up to 5-10 billion. (2) The municipal finance authority is to, through tender procurement, reach contract with a number of professional PPP service providers as soon as possible, and to specify the required services, payment process and standards. (3) The government debt is to be incorporated under budget management, and the borrowing ceiling is to be strictly observed. (4) Advance supply-side structural reforms. Measures should be adopted to make the agricultural industry stronger and more competitive, support the technological innovation of the manufacturing industry, and encourage the upgrading of the service industry.

6. The Finance Department of Shanxi Province identified seven priorities on improving performance and efficiency of financial asset management

According to the news released on April 20 by the Finance Department of Shanxi Province, the Department would focus on seven aspects on improving performance and efficiency of financial asset management. (1) Design and release guidelines on standardizing and further strengthening supervision over the management

of state-owned assets under administrative institutions. Provincial administrative institutions should standardize asset management and asset liquidation, optimize asset management processes and mechanism, and align asset management with budget management. (2) Comprehensively deepen SOE reforms, and participate in the pilot program of restructuring state-owned capital investment and operation companies. (3) Improve the supervision over state-owned capital operation budget and financial information of SOEs. (4) Make innovative use of the special fund for the supply-side reform on the power sector. The Shanxi Investment Group is fully authorized in the whole management process of project selection, fund allocation and investment recovery. (5) Internal control requirements of the provincial finance department should be observed strictly to rigorously guard against and resolve potential risks.

7. Finance authorities of Sanmenxia City, Henan Province took four measures to strengthen the supervision of government procurement

According to the news published by the Finance Department of Henan Province on April 26, in recent years, the finance authorities of Sanmenxia City have been constantly expanding the channels of procurement and regulating the conduct of procurement. (1) On the basis of the pre-warning mechanism for major projects, it made great efforts to foster a fair, open and equitable competition regime and market environment, and strengthened the awareness for service and integrity. (2) It gradually put

into place relatively comprehensive rules for the transaction as well as supervision and operation of public resources. (3) It developed various supervision approaches, used online portals and comments-seeking platforms to improve the public supervision of government procurement, and further enhanced its institutional capacity building. (4) It assessed whether procurers complied with procurement rules, made unauthorized procurement, colluded with suppliers, had discriminatory conduct, and followed the statutory integrity requirements.

8. Suzhou City, Anhui Province took six measures to further enhance the supervision of government procurement

According to the news published by the Finance Department of Anhui Province on April 28, the Finance Bureau of Suzhou City has strengthened the supervision of government procurement to make it more scientific, meticulous and institutionalized. (1) It further emphasized the use of fiscal funds for procurement and conducted procurement for the items on the catalogue of centralized government procurement. (2) It strengthened the organization and management of procurement, and required procurement to be law-based, accountable and well-regulated. (3) It made a point of compiling procurement budget at the beginning of a year. (4) It made budget more binding, and banned the unbudgeted and unfunded procurement, the unauthorized procurement as well as the intentional circumvention of government procurement. (5) It developed a flow chart for E-procurement to enhance procurers' understanding of procurement process. (6) It

raised the procurers' awareness of strictly abiding by the procurement laws and regulations and enhanced the decision-making management over procurement.

V. Remarks and Opinions

1. Li Keqiang: lay a solid foundation for the full implementation of VAT reform, and deepen reform to promote steady growth, structural adjustment and new growth engines

Recently, Premier Li Keqiang paid study tours to MOF and State Administration of Taxation (SAT) and chaired meetings on the full implementation of VAT reform. Premier Li pointed out that the full implementation of VAT reform was a significant step for structural reform as well as for fiscal and tax reforms, which would generate multiple policy impacts. First, it helps to evidently relief enterprises of tax burdens. With weak economic recovery globally and downside pressure domestically, the proactive fiscal policy is to play a stronger role. The expansion of fiscal deficit this year is mainly attributable to reduced tax revenues from businesses as the result of VAT reform, which cuts tax burden for businesses by over 500 billion RMB, the largest cut in recent years. Now that the real estate sector is also covered, it helps to increase effective investment

by businesses. As fish grows bigger in a deeper pond, the reform will make the growth be stronger and last longer. Second, the reform is a major booster for structural upgrading of the economy. The VAT reform is conducive to the development of service sector, especially output related services. It promotes optimized division of industries, extends the industrial chain, and fosters manufacturing upgrading. Third, it helps to create a fair competitive market environment. Through unified tax code, the VAT is applied to all sectors and the deductible chain is integrated among various service industries and between the secondary and tertiary industries, thus eliminating double taxation from the tax regime, which is of long-term significance to the improvement of the tax regime. At present, the development of new economy, emergence of new growth engines and upgrading of traditional industries have spawned a large number of new technologies, industries, and business models. The full implementation of VAT reform helps the enterprises get lower cost of innovation and faster upgrading of equipment. It fosters crowd-innovation, crowd-sourcing, crowd-supporting and crowd-funding platforms for the implementation of innovation-driven development strategy, and encourages start-ups and innovation by the general public. Private companies and small and micro-enterprises may enjoy better market environment as a result, leading to stronger job creation, especially for the over 10 million graduates from universities and vocational schools. The reform will accelerate the shift of growth engines while maintaining medium to high rate of growth and advancing the economic structure towards higher levels. The fiscal and taxation system is in the

front-line of VAT reform, and the last stop of policy implementation. Relevant government agencies should spare no effort in the preparation and implementation. Line-agencies should strengthen coordination to form synergy, push ahead with reform while giving detailed policy interpretation to address concerns of the public in time and stabilize market expectations. Efforts should be made to strengthen training and services for taxpayers, help enterprises to improve financial management, and guide taxpayers to correctly understand and make good use of the policy. Relevant agencies should step up research, follow and analyze the operation of pilot programs, conduct in-depth analysis on typical problems and come up with timely countermeasures. Transitional measures should be adopted to ensure the tax burden for industries to be put on a declining path. Meanwhile, we should enhance institutional building and policy guidance to prevent local protectionism and market segmentation. Tax evasion and fraud will be cracked down according to the laws.

2. Li Keqiang: accelerating the transition from old engines of growth to new ones and promoting steady, efficient and high-level development of the Chinese economy

In his published speech on March 6, Premier Li Keqiang said that despite the complex domestic and external situation and various daunting challenges, China has the capability and condition to maintain sustained and stable social and economic growth. The leeway for macro regulation remains ample, the space for

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developing innovative management tools is still large, and the measures unveiled last year to maintain steady growth, promote reform, adjust structure and improve people's livelihood will continue to take effect. All these factors will sustain the momentum of medium-to-high growth and underpin the transition to medium-to-high level of development. To this end, it is important to actively foster new engines of growth and develop the new economy. Specifically, we need to pursue innovative, coordinated, green, open and shared economic development, deepen structural reform, particularly the supply-side structural reform, adapt to the new round of global technological revolution and industrial changes, adopt an innovation-driven growth strategy, promote the public to start businesses and make innovations, unleash the creativity of people, accelerate the fusion of "Made in China 2025" and "Internet+", incubate disruptive technologies, facilitate the emergence of new industries and new business models, reinvent and enhance traditional engines of growth, reduce excess capacity in an orderly way, make advanced manufacturing and modern service industry the key pillars of the Chinese economy, engineer the stable transition from old engines of growth to new ones, and harness the "twin engines" to put the Chinese economy on a higher and more steady and sound path of development. The key to the transition lies in deepening reform and creating technological and institutional platforms for market players. We need to create such platforms for businesses, universities, research institutes and makers, develop innovative operation models, advance the shared economy, mobilize private businesses and catalyze private capital, make innovation

part of the DNA of all the industries and sectors, and upgrade the quality and level of the Chinese economy through vibrant innovation and creative activities. The transition towards new growth engines also requires the government to move faster to change its functions. We need to press ahead with deregulation, improve regulation, deliver better government services to lessen the burden of businesses when they engage in innovation or create start-ups, and foster a fair, convenient and enabling market environment. We will cut taxes and fees to reduce the costs of businesses as they move forward. We will focus on addressing the areas of people's concern, such as education, health, housing, social security and food safety, strengthen the social safety net, accelerate the pace of poverty reduction, and ensure people can gain greater benefits in the course of building a moderately prosperous society in all aspects.

3. Lou Jiwei: relevant players should make joint efforts to tackle poverty and unemployment

In his recent remarks on the 93rd Session of the Ministerial Conference of the Development Committee, Finance Minister Lou Jiwei said that despite continuous moderate recovery, the global economy is still beset by many uncertainties and unstable factors. There is a serious shortage of resources for development. In particular, displaced population is surging lately, causing drastic pressure on economic development and social stability in some countries, and further exacerbated the fragility and complexity of the international environment for development.

The main cause of displacement is protracted poverty, unemployment and long-term war and conflict, which calls for joint efforts by the UN, influential nations and the international community. The fundamental resolution towards this problem is to end regional conflicts, maintain peace and foster development. Taking promoting poverty reduction and development as its principle mandates, the World Bank should abide by its Charters, uphold its mission and utilize its comparative strength, and based on that, play its due role in addressing poverty caused by the displacement. During this process, the Bank should properly handle its relationship with UN agencies and multilateral development banks to give play to their complementary advantages; and strike a balance among maintenance of peace, humanitarian assistance and long-term development, while focusing on supporting long-term economic development of recipient countries. At the same time, the Bank should develop uniform principles and standards internally to ensure equal treatment of recipient countries and see to that funding commitment to poverty reduction and to other borrowing countries is unaffected. The Bank may consider capital replenishment as the main channel to enhance its capital strength, in order to improve the lending capacity and financial sustainability. The Bank should keep the equity review process on schedule, so as to objectively reflect the evolvement of global economic landscape, and to give more voice and representation to developing countries. Meanwhile, the Bank should strengthen all-round cooperation with developing countries, better cater to the needs of developing countries, and provide customized solutions, so as to maximize development efforts.

4. Lou Jiwei: “replacing business tax with VAT” reform is an important step forward in China’s structural reform

In his recent speech, Finance Minister Lou Jiwei said that the comprehensive implementation of the “replacing business tax with VAT” reform is an important move for promoting the supply-side structural reform, and is expected to deliver multiple benefits and exert far-reaching impact since it will not only underpin current growth but also sustain future growth. The tax reform in 1994 gave rise to a tax system featuring the co-existence of VAT and business tax. Under this tax regime, VAT was levied on goods and the processing and repair services, and business tax was levied on other services, real estate and intangible assets. This arrangement played an important role in economic development, however, the co-existence of VAT and business tax also resulted in the increasingly acute problem of double taxation, making it imperative to reform the system to subject goods and services in all industries to VAT. As many industries and firms are facing difficulties in their operation, the comprehensive VAT reform will invigorate the businesses and boost the economy. Meanwhile, this VAT reform is leaning towards R&D and other producer service industries, which will help optimize division of labor, lengthen the production chain and upgrade the manufacturing industry. One of the objectives of the VAT reform is to ensure the tax burdens of all industries will decrease rather than increase, which is also an important political task. When designing the pilot program, MOF and SAT placed equal emphasis on reform and growth, properly handled the pace and intensity of reform, and determined the appropriate VAT rate for each pilot industry. Meanwhile, the

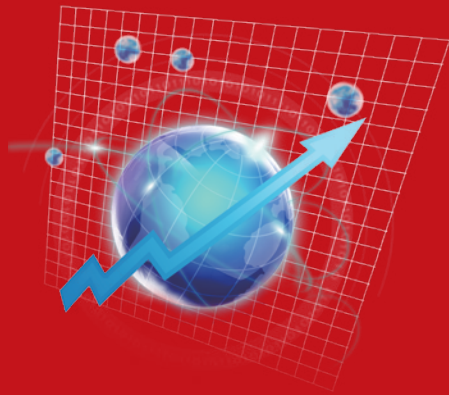
previous tax incentives for the four new pilot industries are retained. With respect to policy implementation, MOF and SAT require all levels of finance and tax authorities to fully implement the policies. To ensure reform dividends are truly delivered to businesses, training programs are also organized to help fiscal and tax officials as well as financial staff in businesses to better understand the policies and avoid the case where tax burden of businesses is increased due to misunderstanding and incorrect enforcement of policies. Monitoring over the pilot program is also enhanced to timely and properly address the emerging problems. After the roll-out of the VAT reform, the central and local share of the VAT revenue needs to be adjusted. While maintaining the general stability of the central and local income level, interim measures for the sharing of VAT revenue between central and

local governments will be drawn up, and localities will be guided to develop industries that suit local circumstances to enhance the local income-generating capacity. As the tax reform is yet to be fully in place and it still takes time to complete the division of government duties and expenditure obligations between central and local governments, an interim plan is needed for the sharing of the VAT revenue between the central and local governments to rationalize the intergovernmental income distribution. VAT reform will cut tax revenue for both central and local governments, and after the adjustment of VAT income distribution, the central government will take more loss of revenue. In addition, the central government will give tax rebates to local governments to ensure the existing interests of central and local governments remain basically unchanged.

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