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HIGHLIGHTS

- Finance Minister Lou Jiwei: rating agencies are biased
- On May 2-4, Finance Minister Lou Jiwei led a Chinese government delegation to attend the ADB's 49th Annual Meeting of Board of Governors in Frankfurt, Germany
- The State Council decided to promote down-sizing and higher efficiency of the central enterprises, and enhance competitiveness through reform and restructuring
- PPP Center of MOF published the project proposal for the Global Infrastructure Facility (GIF)
- MOF allocated 27.643 billion RMB of grants for local governments to address overcapacity in steel and coal industries 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 further clarification of full roll-out of VAT pilot reform in the financial sector

On April 29, the Ministry of Finance (MOF) issued a circular on further clarification of full roll-out of VAT pilot reform in the financial sector. (1) Interest income of financial institutions from pledged repo of financial products or holding policy financial bonds is recorded as interest income from transactions with other financial institutions. (2) In the *Interim Policy Provisions*, the return-of-premium (ROP) life insurance over one-year maturity eligible to VAT exemption includes other types of annuity insurance, which refer to annuities other than pension insurance. (3) Service revenues of rural credit cooperatives and rural banks from at and below county-level outlets may apply the simplified tax bracket of 3% of VAT. (4) For county-level bank branches covered in rural financial reform pilot program in the provinces, autonomous regions, municipalities with independent planning status and Xinjiang Production and Construction Corps, their interest income from loan extensions to farmers, rural enterprises and rural organizations may opt for simplified tax bracket of 3% of VAT.

2. The State Council issued the

Transitional Adjustment of Tax Sharing between Central and Local Governments after Full Roll-out of VAT Pilot Reform

On April 29, the State Council issued the *Transitional Adjustment of Tax Sharing between Central and Local Governments after Full Roll-out of VAT Pilot Reform*. (1) The baseline for tax rebates from the central government and revenues submitted by local governments should be determined based on the 2014 revenue. (2) VAT revenues from all sectors should be shared by the central government and local governments. (3) The central government is entitled to 50% of VAT revenue. (4) The local government is entitled to 50% of VAT revenue from the locality. (5) Additional revenue shared by the central government after full roll-out of VAT pilot reform is to be transferred to local governments through tax rebates, so as to ensure stabilized financial resources of the local governments. (6) Increased revenue received by the central government is to be disbursed to local governments through equalized transfer payment, with priorities given to middle and western regions.

3. MOF issued a circular on further clarification of tax deduction policies relating to labor dispatch service and toll roads after full roll-out of VAT pilot reform

On April 30, MOF issued a circular on further clarification of tax deduction policies relating to labor dispatch service and toll roads after

full roll-out of VAT pilot reform. (1) On labor dispatch service. When the service is provided by the general taxpayer, the sales value is recorded at full service costs and fees, and the VAT is calculated with general taxation formula, or the taxpayer may opt for deducted tax. When the service is provided by the taxpayer with small business size, the sales value is recorded at full service costs and fees, and the VAT is levied at simplified tax bracket of 3%, or the taxpayer may opt for deducted tax. (2) On tax levy and deduction on toll roads. From May 1 to July 31, 2016, tolls paid by the general taxpayer for roads, bridges or toll gates may be recorded at invoice value for deductibles in input tax. For tolls collected by the general taxpayer on first- or secondary-grade highways, bridges or tolled gates before the launching of VAT pilot, the taxpayer may opt for simplified tax bracket of 5% of VAT.

4. MOF issued a circular on the application for the 2016 cultural development special fund

On May 3, MOF issued a circular on the application for the 2016 cultural development special fund. (1) Applicant fund for the special fund should meet the following requirements: the fund is established in China in accordance with relevant laws and regulations, structured as partnership firm or corporation, categorized as cultural investment fund and investing in cultural sectors or relevant fields. The fund should have sound mechanisms in terms of operation, decision-making and risk control. (2) Provincial cultural investment groups

applying for the fund should meet the following requirements: the group should have been established for over 2 years, with total assets above 10 billion RMB, net assets over 5 billion RMB and assets-liability ratio under 70%, as of end 2015. The group should have proper license for cultural assets financing business. The group and organizing parties should provide matching funds for the fiscal fund at no less than 3: 1 ratio.

5. The State Council decided on the plans to promote deeper integration of manufacturing and the Internet to speed up the upgrading of Chinese manufacturing

On May 4, Premier Li Keqiang chaired the Executive Meeting of the State Council and made instruction on promoting deeper integration of manufacturing and the Internet to accelerate the upgrading of Chinese manufacturing. (1) Support manufacturers to build Internet-based innovation platforms and encourage local authorities to build showcase innovative zones. (2) Foster tailored and service-oriented manufacturing models, and carry out pilot programs of smart manufacturing solutions. (3) Promote interconnection between small and medium manufacturers and the Internet, so as to strengthen integration among manufacturing, marketing and logistics. (4) Expand market access for new products and new business models, provide greater support in terms of taxation, finance and land use, encourage telecommunications companies to further speed up broadband access and reduce

service fees for innovative incubations, and support financial institutions to use innovative platforms to provide “one-stop” systematic financial services.

6. MOF issued a circular on VAT refund policy for goods and services purchased in China by foreign embassies (consulates) or their staff

On May 6, MOF issued a circular on VAT refund policy for goods and services purchased in China by foreign embassies (consulates) or their staff. (1) Goods and services purchased in China by foreign embassies (consulates) or their staff are eligible to VAT refund. (2) The “goods and services” refer to consumer office stationary and services with VAT and purchased for self-use. (3) Each receipt for purchased goods or services should exceed 800 RMB and 300 RMB, respectively, for VAT refund application. The refundable value should not exceed 120,000 RMB per person annually. (4) The value of refundable VAT is recorded as the face value of the VAT receipt. When the value of refundable VAT is not specified in the receipt, the tax is recorded as exclusive of sale tax and VAT tax.

7. MOF published a circular on the relevant issues concerning the preferential corporate income tax policy for software and integrated circuit firms

On May 9, MOF published a circular on the

relevant issues concerning the preferential corporate income tax policy for software and integrated circuit firms. (1) When making their annual tax calculation and payment, the software and integrated circuit firms that enjoy preferential tax policies shall file records along with required documents to tax authorities. (2) The regular period for tax reduction and exemption shall start from the profit-making year of the software and integrated circuit firms. (3) The software items 38, 41, 42, 43 and 46 in the *Catalogue of the Items Eligible for Preferential Corporate Income Tax Treatment that are Subject to Record-filing Administration (Version 2015)* attached to the *Announcement No. 76 (2015)* of the State Administration of Tax (SAT) as well as the preferential corporate income tax policy for integrated circuit firm are no longer administered as the “items entitled to regular period of tax reduction and exemption that are subject to record-filing administration”.

8. MOF published a circular on issues concerning corporate income tax policy over equity donation for public welfare purposes

On May 10, MOF published a circular on issues concerning corporate income tax policy over equity donation for public welfare purposes. (1) The equity donation made by an enterprise to a public-welfare social organization shall be regarded as equity transfer in accordance with the provisions, and the income from equity transfer shall be determined at the historical cost of the equity donated by the enterprise upon acquisition thereof. (2) After an enterprise

donates equities, the amount of such donation shall be determined based on the historical cost of the equities, and shall be deducted before income tax in accordance with relevant provisions of the law on enterprise income tax. Upon receipt of the above equity donation, the public welfare social organization shall issue an invoice for such donation according to the historical cost of the equity provided by the enterprise.

9. MOF published the *Interim Measures for the Pilot Reform of Water Resource Tax*

On May 10, MOF published the *Interim Measures for the Pilot Reform of Water Resource Tax*. (1) Water resource tax is levied on surface water and ground water. (2) Separate tax standards are determined for surface water and ground water. (3) Minimum tax standard is set for the taking and use of water for purposes other than hydropower generation and tubular-type coal-fired power generation, with an average of no less than 0.4 RMB/cubic meter levied on surface water and no less than 1.5 RMB/cubic meter levied on ground water. (4) Higher tax standard is set for the taking and use of ground water. (5) Higher tax standard is set for the taking and use of water by special industries. (6) Higher tax standard is set for the taking and use of water that exceeds the planned amount or prescribed limit. (7) Lower tax standard is set for the taking and use of water for agricultural production that exceeds the prescribed limit and for the centralized drinking water project that supplies the domestic water for rural residents.

(8) Lower tax standard is set for the taking and use of water recycled and reclaimed by enterprises from mine drainage and waste water of ground source heat pump. (9) Water resource tax is exempted for the taking and use of water for agricultural production within the prescribed limit and the taking and use of unconventional water resources such as recycled or reclaimed water from sewage treatment.

10. MOF published a circular on comprehensively advancing the resource tax reform

On May 10, MOF published a circular on comprehensively advancing the resource tax reform. (1) Carry out the pilot reform of water resource tax and gradually expand the collection of resource tax to other natural resources. (2) Levy ad-valorem tax on 21 types of resources listed in the *Table of Resource Tax Items and Tax Rates* as well as other unspecified metallic ores. (3) In the meantime of levying resource tax on the ad-valorem basis, the mineral resource compensation rate of all types of resources will be cut to zero, the collection of price adjustment charges will be suspended and all sorts of local charges and fees on mineral resources that contravene relevant regulations will be abolished. (4) Within the prescribed tax rate range, the provincial government may propose specific applicable tax rate for the approval of MOF and State Administration of Taxation (SAT). (5) Resource tax rate is cut by 50% for the qualified mineral resources that are extracted by using the cut and fill method; and is cut by 30% for the qualified

mineral resources extracted from the mines in the exhaustion stage. (6) All the mineral resource tax income derived from this round of reform will go to local governments, while the water resource tax income is still shared by 1:9 between the central and local governments, as is the case with the distribution of the income from the water resource fee.

11. The State Council made plans on the upgrading of consumer product industries

On May 11, Premier Li Keqiang chaired the Executive Meeting of the State Council, which made plans on the upgrading of consumer product industries. The meeting called on greater efforts to: (1) improve market access, scrap unnecessary approval requirements and unreasonable charges, support enterprises to invest more in making creative design and enhancing technological content and products performance, and promote the innovation and effective supply of mass consumer goods. (2) Encourage enterprises to be quality-centered and integrity-focused, and promote the manufacturing of quality and sophisticated products to win more market shares. (3) Foster a fair and competitive business environment and align domestic consumer goods to international standards. (4) Strengthen regulation, roll out the regulatory approach of “randomly selecting inspection targets, randomly dispatching law enforcement officials, and disclosing investigation results”, and create schemes of blacklisting firms and imposing punitive sanctions on them.

12. The State Council issued guidance on improving compensation mechanisms for ecological protection

On May 16, the State Council issued guidance on improving compensation mechanisms for ecological protection. (1) Raise financing through various channels to increase the compensation for ecological protection. Raise the balancing transfer payment coefficient to gradually increase transfer payments to key ecological functional areas. (2) Further roll out piloting showcase programs of compensation for ecological protection, co-ordinate various compensation funds, and explore comprehensive remedies. (3) Let local governments play the major role in compensation mechanism with the central government providing fiscal support. (4) Accelerate the establishment of compensation standards based on local conditions, ecological output capacities and improved measurement. (5) Study a new mechanism featuring coordinated ecological remedies, ecological trading market and compensation for protection. (6) Take account of both environmental protection and recovery, and explore new solutions to poverty reduction through ecological development.

13. MOF issued a circular on tax policy for imported seeds or seedlings during the 13th Five-Year Plan Period

On May 17, MOF issued a circular on tax policy for imported seed or seedlings during the 13th Five-Year Plan Period. (1) Imported seeds or seedlings that are duty-free include

seeds (seedlings), breeding stock (poultry) and fish (seedlings) closely related to or directly used for agriculture and forestry production, or plant and wildlife used for research, seeding or breeding. (2) Importers of seed or seedlings should put forward plans to relevant authorities, and MOF is to work jointly with SAT and the General Administration of Customs (GAC) to determine the variety and quantity of the annual duty-free imports. (3) Imported seeds or seedlings that are not verified or included in the duty-free annual list are subject to import VAT. (4) The duty-free seeds or seedlings are subject to domestic tax provisions after entering the domestic market.

14. MOF issued a circular on the use of management system on national bookkeeping agencies

On May 18, MOF issued a circular on the use of management system on national bookkeeping agencies. (1) Provincial finance authorities should enhance leadership, supporting staff and hardware maintenance, strengthen policy awareness and personnel training, so that supervision authorities for qualified bookkeeping agencies may understand and command the functions of the management system as soon as possible, and bookkeeping agencies may get hold of new policy requirements and working procedures as soon as possible. (2) The supervision authorities should follow the requirements of management system and regulate through the management system. (3) The supervision authorities should take stock of the lessons and experience learned,

provide suggestions to improve and upgrade management system, and make timely feedback to MOF.

15. MOF initiated special inspection over earmarked funds for pollution control and biomass power generation projects

On May 18, MOF announced that special inspection over earmarked funds for pollution control and biomass power generation projects is to be carried out by Local Inspector's Office of MOF. The inspection covers Beijing, Tianjin, Hebei and others, all together 11 provinces (autonomous regions and municipalities), and is focused on whether the fund is properly allocated or disbursed in time; whether the fund is effectively used to tackle outstanding problems of air pollution or used for biomass power generation projects with additional power tariff subsidies during 2014-2015; and whether the fund is misused or misappropriated.

16. The State Council decided to promote down-sizing and higher efficiency of the central enterprises, and enhance competitiveness through reform and restructuring

On May 18, Premier Li Keqiang chaired the executive meeting of the State Council, which decided to promote down-sizing and higher efficiency of the central enterprises, and enhance competitiveness through reform and restructuring. (1) Take targeted measures to

address difficulties faced by struggling and loss-making enterprises, phase out outdated production capacity of central enterprises in steel and coal industries, and accelerate the restructuring and market clearing. (2) Combine Internet+ initiative and big data development strategy, so as to constantly promote the industrial advancement and competitiveness of their products. (3) Flatten management hierarchy, and strive to reduce management layers in major central enterprises from the current 5-9 to 3-4 layers in 3 years, and cut corporate units by about 20%. Improve supervision and administration over state-owned assets, take innovative supervision approaches, and prevent the impairment of state assets. (4) Strengthen cost control, reduce accounts receivables, inventory stocks and losses, lower debt levels, in an effort to cut costs and increase profits by 100 billion RMB in the next two years.

17. MOF initiated a special inspection on the special central fiscal fund for the improvement of basic schooling conditions for vocational schools

On May 19, MOF announced that a special inspection on the special central fiscal fund for the improvement of basic schooling conditions for vocational schools is to be carried out by local Inspector's Office of MOF. The inspection covers provincial and lower levels of finance and educational authorities and other fund-using institutions in Liaoning, Jilin, Fujian and others, all together nine provinces. The inspection is focused on whether the fund is

applied for and allocated properly, whether the budgeting and fund allocation is in time, the capital construction is compliant with due process, the expenditure is within limits, and whether the fund is used for repaying debt or interest, or for investment, or making up the funding gap for other projects.

18. MOF published a circular on the application for insurance premium subsidies of the first set of major technological equipment

On May 23, MOF published a circular on the application for insurance premium subsidies of the first set of major technological equipment. (1) The time of application. To claim the subsidies, the application documents shall be submitted as required before May 25, 2016, and be sent to the Ministry of Industry and Information Technology (MIT) by May 30, 2016 after the verification by the provincial industry and information technology authorities and the central enterprise group. The manufacturing enterprises that purchase insurance in the subsequent years shall submit their application documents before March 15 and send them to MIT by March 30 after the verification by the provincial industry and information technology authorities and the central enterprise group. (2) The major technological equipment that apply to be included in the *Guiding Catalogue for the Promotion and Use of the First Set of Major Technological Equipment* shall meet the requirements of industrial transformation and upgrading, demonstrate visible energy-saving, material-saving and environmentally friendly

effects, possess significant economic and social benefits, and are in the phase of market promotion for the first time.

19. PPP Center of MOF published the project proposal for the Global Infrastructure Facility (GIF)

On May 23, PPP Center of MOF published the project proposal for the Global Infrastructure Facility (GIF). (1) The proposed project shall be climate-friendly and pro-trade infrastructure projects that adopt the PPP model in the GIF priority areas of energy, water and environmental protection, transport, and telecommunication. (2) The proposed projects shall be major and new infrastructure projects that are aligned to the local development strategy and with a schedule that matches the GIF procedures. (3) The project implementing agency can apply for GIF grants for project identification, with the average grant per project amounting to 250,000 USD. (4) The project implementing agency can apply for GIF loans and develop projects with the assistance from GIF technical partners. (5) After the successful project development, the financing support from GIF partners and international institutional investors is also available.

20. MOF published a circular on taking effective measures to further strengthen the management of local treasury cash

On May 23, MOF published a circular on

taking effective measures to further strengthen the management of local treasury cash. (1) Performance evaluation of the local treasury cash management will be conducted on a monthly basis. (2) Ad hoc talks will be made with the finance authorities of the bottom six underperforming localities. (3) The mechanism of linking transfer payment with the size of local treasury cash will be strengthened. (4) All levels of finance authorities shall further enhance the management of transfer payment, and work with other parties to promote the implementation of major pro-growth policy projects by accelerating expenditure on those areas. (5) All levels of finance authorities shall improve the accountability of treasury cash management by clearly defining the work assignment and responsibility.

21. The State Council published guiding opinions on deepening the integration of manufacturing and internet

On May 23, the State Council published guiding opinions on deepening the integration of manufacturing and internet. (1) Deepen the reform of streamlining administration, delegating power, improving regulation and enhancing service delivery, ease the market entry for new products and business models, and foster an enabling environment for the integration of manufacturing and internet. (2) Encourage central enterprises to set up the pro-innovation investment fund and direct local industrial investment fund and private capital to support the development of a platform that

facilitates the integration of major companies and internet. (3) Leverage central fiscal funds to encourage local governments to create dedicated funds for the integration, and scale up inputs into the key links and areas of the integration. (4) Further expand the scope of corporate VAT deduction and implement the preferential VAT policies in the process of rolling out the pilot VAT reform.

new charges or charges in disguised forms, and regulate all sorts of accreditation, evaluation, inspection, testing and other intermediary services. (6) Expand the autonomy of universities and research institutes. (7) Further promote the disclosure of government affairs and make sure the government information is open, transparent and available to the people.

22. The State Council published the *Priorities for the Reform of Streamlining Administration, Delegating Power, Improving Regulation and Enhancing Service Delivery in 2016*

On May 25, the State Council published the *Priorities for the Reform of Streamlining Administration, Delegating Power, Improving Regulation and Enhancing Service Delivery in 2016*. (1) Continue to intensify the delegation of power, and wherever possible, delegate power to lower level governments or abolish the power to give the market and private sector a greater say. (2) Further increase the autonomy of enterprises and revise the government-authorized investment item catalogue. (3) Further cut a batch of vocational qualification licensing and accreditation to reduce 70% of vocational qualifications previously set up by the State Council. (4) Further ease market entry, cut the business registration pre-approvals by one-third in this year to eliminate 90% of pre-approvals and abolish over 50 post-approvals. (5) Strictly enforce all the existing policies that clean up fees and charges, forestall any

II. Facts & Figures

1. China's manufacturing PMI stood at 50.1% in April

According to the data released by the National Bureau of Statistics (NBS) on May 1, China's manufacturing PMI was 50.1% in April, a decline of 0.1 percentage point month on month. Compared with the previous month, the PMI for large enterprises was 51.0%, dropping by 0.5 percentage point; for medium-sized business, it was 50.0%, edging up by 0.9 percentage point; and for small businesses, it was 46.9%, a decline of 1.2 percentage points. In categorized indexes, the production index was 52.2%, a decline of 0.1 percentage point; the new orders index was 51.0%, down by 0.4 percentage point; the employee index was 47.8%, a decline of 0.3 percentage point; the raw materials inventory index was 47.4%, decreasing by 0.8 percentage point; and the supplier delivery time index was 50.1%.

2. China's CPI rose by 2.3% year on year in April

The data released by NBS on May 10 show that China's CPI rose by 2.3% year on year in April, among which, the CPI rose by 2.3% in urban areas and 2.4% in rural areas; 7.6% for food and 1.1% for non-food; 2.5% for consumer goods and 2.0% for services. Average CPI from January to April edged up by 2.2% year on year. In April, CPI went down by 0.2% month on month, among which, the figure dropped by 0.2% in both urban and rural areas; decreased by 1.4% for food and rose by 0.1% for non-food; fell by 0.4% for consumer goods and went up by 0.2% for services.

3. China's PPI in April fell by 3.4% year on year

The data released by NBS on May 10 show that China's PPI in April rose by 0.7% month on month, and fell by 3.4% year on year. IPI went up by 0.6% month on month, and down by 4.4% year on year. The average PPI fell by 4.5% year on year and the average IPI decreased by 5.4% year on year from January to April. With respect to PPI, the price of the means of production dropped by 4.5% year on year, specifically, the figure fell by 13.0% in the extractive industry, 7.7% in the raw material industry, and 2.5% in the processing industry. The price of the means of consumption dropped by 0.2% year on year, specifically, the figure rose by 0.7% for food and apparel, fell by 0.5% for daily necessities, and went down by 1.7% for durable consumer goods.

4. Housing prices in 70 large and medium-sized Chinese cities in April

According to the data released on May 18 by NBS, compared with March, of the 70 large and medium-sized cities, the price for newly-built commercial housing declined in 5 cities, while increasing in 65 cities. Among the month-on-month price changes, the highest was up by 5.8%, and the lowest was down by 0.5%. In terms of year-on-year comparison, of the 70 cities, the price dropped in 23 cities, increased in 46 cities, and stayed flat in 1 city. In April, the highest year-on-year increase was 63.4%, and the lowest was down by 3.2%. Compared with last month, of the 70 cities, the price of second-hand housing fell in 10 cities, increased in 51 cities, and stayed flat in 9 cities. In terms of month-on-month changes, the highest increase was 6.8%, and the lowest was down by 0.4%. In terms of year-on-year comparison, of the 70 cities, the price dropped in 22 cities, increased in 47 cities, and stayed flat in 1 city. In April, the highest year-on-year price increase was 56.1%, and the lowest was down by 7.2%.

5. MOF allocated 27.643 billion RMB of grants for local governments to address overcapacity in steel and coal industries in 2016

According to the data released on May 19 by MOF, MOF allocated 27.643 billion RMB of special restructuring funds for industrial enterprises in 2016. The special fund includes

basic incentive grants and progressive grants. Local governments are requested to make coordinated use of the fund to resettle laid-off workers.

6. The central finance authority has disbursed 134.5 billion RMB of subsidies for compulsory education in urban and rural areas in 2016

The data released by MOF on May 24 show that the central finance authority has disbursed 134.5 billion RMB of subsidies for compulsory education in urban and rural areas in 2016, an increase of 3% over 2015. In the western region, the subsidy is 600 RMB per primary school student and 800 RMB per middle school student; and in the eastern region, the subsidy is 650 RMB per primary student and 850 RMB per middle school student. The subsidy for urban and rural schools under the compulsory education scheme (including private schools) shall be no lower than the basic standard.

7. The central finance authority has earmarked 790 million RMB in 2016 to continue to support the efforts of national modern agricultural demonstration zones to replace subsidies with rewards

The data released by MOF on May 25 show that the central finance authority has earmarked 790 million RMB in 2016 to continue to support the efforts of national modern agricultural

demonstration zones to replace subsidies with rewards. Guided by the principle of “promoting steady output, higher income, better model, and quality, efficient and sustainable production”, the funds will be used to strengthen the agricultural industry, improve agricultural production and operation, accelerate the development of demonstration zones and spearhead the agricultural modernization with Chinese characteristics.

8. China’s lottery sales in March

The data released by MOF on May 25 show that nationwide lottery sales in March totaled 35.688 billion RMB, up by 4.876 billion RMB year on year, or 15.8%, among which, welfare lottery sales were 19.113 billion RMB, up by 1.29 billion RMB, or 7.2%; sports lottery sales were 16.575 billion RMB, up by 3.586 billion RMB, or 27.6%. Cumulative nationwide lottery sales from January to March totaled 90.784 billion RMB, down by 4.051 billion RMB year on year, or 4.3%, among which, welfare lottery sales were 49.58 billion RMB, down by 941 million RMB, or 1.9%; sports lottery sales were 41.204 billion RMB, down by 3.111 billion RMB, or 7.0%.

9. The performance of Chinese SOEs from January to April

The data published by MOF on May 25 show that the operating incomes of SOEs totaled 13.51706 trillion RMB from January to April, down by 1.7% year on year, among which, the

figure for central SOEs was 8.21914 trillion RMB, down by 3.9% year on year, and the figure for local SOEs was 5.29792 trillion RMB, up by 2% year on year. The operating costs of SOEs totaled 13.16728 trillion RMB, down by 1.5% year on year, among which, the figure for central SOEs was 7.87415 trillion RMB, down by 3.4% year on year, and the figure for local SOEs was 5.29313 trillion RMB, up by 1.3% year on year. The profits of SOEs totaled 652.26 billion RMB, down by 8.4% year on year, among which, the figure for central SOEs was 505.41 billion RMB, down by 6.6% year on year, and the figure for local SOEs was 146.85 billion RMB, down by 14.2% year on year. The payable taxes of SOEs totaled 1.22965 trillion RMB, down by 0.8% year on year, among which, the figure for central SOEs was 972.23 billion RMB, down by 1.2% year on year, and the figure for local SOEs was 257.42 billion RMB, up by 0.7% year on year. As of the end of April, the assets of SOEs totaled 123.63323 trillion RMB, up by 15.2% year on year; the liabilities totaled 81.90607 trillion RMB, up by 18% year on year; and the owners' equities totaled 41.72716 trillion RMB, up by 10.1% year on year.

10. China's lottery sales in April

The data released by MOF on May 26 show that nationwide lottery sales in April totaled 34.889 billion RMB, up by 2.277 billion RMB year on year, or 7%, among which, welfare lottery sales were 17.95 billion RMB, down by 138 million RMB, or 0.8%; sports lottery sales

were 16.939 billion RMB, up by 2.415 billion RMB, or 16.6%. Cumulative nationwide lottery sales from January to April totaled 125.673 billion RMB, down by 1.775 billion RMB year on year, or 1.4%, among which, welfare lottery sales were 67.53 billion RMB, down by 1.079 billion RMB, or 1.6%; sports lottery sales were 58.143 billion RMB, down by 695 million RMB, or 1.2%.

III . MOF Events

1. On April 28, Vice Finance Minister Hu Jinglin led a delegation of the National Command Office for Flood and Drought Control in an inspection tour to the Huai River region to give guidance on flood and drought control.

2. On May 2-4, Finance Minister Lou Jiwei led a Chinese government delegation to attend the ADB's 49th Annual Meeting of Board of Governors in Frankfurt, Germany. During the meeting, Minister Lou attended the Board Meeting and Board Seminar, and met with Taro Aso, Deputy Prime Minister and Finance Minister of Japan, Finance Minister of Pakistan Dar, and ADB President Takehiko Nakao. Minister Lou also visited the exhibition of the China Poverty Reduction and Regional Cooperation Fund.

3. On May 2, Vice Finance Minister Shi Yaobin attended and chaired the ASEAN+3 Finance and Central Bank Deputies' Meeting in Frankfurt, Germany.

4. On May 3, Finance Minister Lou Jiwei attended and chaired the 16th China, Japan and South Korea Finance Ministers and Central Bank Governors' Meeting in Frankfurt, Germany.

5. On May 3, Finance Minister Lou Jiwei attended and chaired the 19th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting in Frankfurt, Germany. After the meeting, Minister Lou attended the press conference.

6. On May 17, Finance Minister Lou Jiwei met with Mr. Lim Chow Kiat, the visiting Chief Investment Officer of Singapore's Government Investment Corporation (GIC) in Beijing. The two sides exchanged views on China's economic situation and structural reforms.

7. On May 20, Assistant Finance Minister Dai Bohua met with Andre Berghegger, the head of the delegation of the Budget Committee of the German Bundestag, and exchanged views over the macroeconomic situation of China, government budget and fiscal and tax system.

8. On May 23, Assistant Finance Minister Zhao Mingji met with Olivia Kirtley, President of the International Federation of Accountants (IFAC), and exchanged views over the future development of China's accountancy profession and the role of China's accountancy profession in IFAC and other international accountancy organizations.

IV. Local Finance

1. Finance authorities in Guangdong Province promoted reform and innovation to improve budget performance

According to the news released on May 3 by the Finance Department of Guangdong Province, in recent years, finance authorities in Guangdong promoted reform and innovation to improve budget performance, which has effectively enhanced the performance of fiscal funds. (1) Over 150 management measures were designed for budget performance, which formed a structured, coordinated and comprehensive management system. (2) specialized index system was developed to include general purpose indicators and specific evaluation indicators for agriculture, forest, science and technology, as well as for trade and investment. A management information system was established to cover professional

assessment, departmental budget, standards and project pool. Efforts were made to train high-quality human resources for performance evaluation. (3) Establish mechanisms for managing performance objective, enhance interconnection between departmental budgets and performance management, and develop evaluation system based on diversified perimeters to improve the credibility of the evaluation. A special evaluation is designed for priority projects.

2. Finance authorities in Shandong Province actively built cooperation platform to accelerate in-depth cooperation between Hong Kong and Shandong in PPP projects

According to the news released on May 5 by the Finance Department of Shandong Province, the Department had in-depth exchange of views with the visiting Hong Kong Trade Development Council (HKTDC) delegation on PPP projects in the province. (1) Sharing successful experiences. Hong Kong has advanced experience in PPP projects and extensively participated in the construction and operations of PPP projects globally. It formulated sophisticated and standardized PPP models and boasted the world-famous “Hong Kong experience”. (2) Expanding cooperation platform. Through in-depth exchanges, the two sides built up platforms for mutual understanding, communication and cooperation, which may lead to more successful PPP projects. (3) Promoting showcase projects. Through case briefings on Ningyang City,

Jiaxiang City and Yucheng City, Hong Kong delegates got a deeper understanding on the PPP projects in Shandong.

3. Chongqing Municipality regulated payout of the minimum living standard guarantee

According to the news released by the Finance Bureau of Chongqing Municipality on May 10, to prevent the ineligible people from defrauding the minimum living standard guarantee, Chongqing has revised the *Regulations on the Minimum Living Standard Guarantee of Urban and Rural Residents*. (1) Make more detailed definition of the recipients of the minimum living standard guarantee, which further include their spouses, underage children, adult children unable to live independently, adult children in schools, and other people to whom they have duties of providing for, supporting and rearing and with whom they have lived together for a long time. (2) Allow the application for the minimum living standard guarantee to be processed at townships (streets) rather than at village (neighborhood) committees, exercise close monitoring and make more detailed requirements on the application materials and processing time. (3) The minimum living standard guarantee will be linked to the changes related to the social and economic development, the living and consumption standards of residents and the price index of basic daily necessities. (4) Carry out regular and dynamic surveillance over the minimum living standard guarantee recipients to remove the ineligible ones. (5) Impose more stringent

and specific penalties to deter and curb frauds of the minimum living standard guarantee.

4. Dali City, Yunnan Province took innovative measures to promote fiscal reform

According to the news released by the Finance Department of Yunnan Province on May 11, the finance authorities of Dali City will take more solid measures to promote sustained and healthy development of economy in Dali. (1) Enhance the monitoring and analysis of key industries and enterprises, make scientific judgment of development trend and ensure the stable growth of fiscal revenue. (2) Identify the promotion of people's wellbeing and social harmony as government objectives, stick to the principle of letting government play the major role while encouraging the private sector participation, continue to advance the government procurement of services, and increase people's income through multiple channels. (3) Make fiscal management more scientific, regulated and IT-based, promote internal control system to prevent and contain all sorts of risks in public finance management and to enhance the efficiency of work, make departmental budget and final accounts as well as the "three public expenses"¹ more transparent and open to the public, require more stringent execution of budget and strengthen budget discipline.

5. Finance authorities in Shandong Province adopted measures to help the poor in employment and starting-up businesses

On May 18, the Finance Department of Shandong Province adopted innovative supporting measures to help the rural poor in getting jobs and starting businesses, so as to raise their income. (1) Initiate supporting programs for junior high graduates from poor families to get vocational education. (2) Tap the employment and venture fund to provide vocational skills training for the rural poor so they may transfer to other sectors. (3) Support loan guarantees and interest discounts for start-ups and poverty alleviation efforts. Registered poor residents who are engaged in planting, breeding, agricultural processing and logistics may apply for up to 30,000 RMB of loans without collaterals or counter-guarantees. (4) Based on training programs for farmers, carry out technology-featured poverty alleviation efforts in several poor villages, and provide training for science and technology frontrunners, showcase households and management staff in rural cooperatives. (5) Promote tourism to create more jobs and encourage new start-ups. (6) Prioritize the improvement of postal outlets in rural poor areas by adding regular letters, newspaper subscriptions, mail delivery and other basic postal services.

1 "Three public expenses" refer to expenses on official overseas trips, expenses on government vehicle purchasing and maintenance, and expenses on receptions.

6. Shanxi Province introduced a number of policy measures to accelerate the development of PPP projects

On May 19, the Finance Department of Shanxi Province announced that in order to promote PPP development in the province, eight supporting policy measures have been introduced. (1) Establish joint review mechanism for PPP implementation to improve government service and optimize procedures. (2) For PPP projects listed as provincial showcase projects, the provincial finance authority is to provide a lump-sum grant based on the total investment. (3) Encourage debt conversion and PPP projects at various levels. (4) Make coordinated use of existing special funds to give priority to PPP projects. (5) Integrate fiscal subsidies into mid to long term budget arrangement to ensure financing, and gradually shift the focus from construction subsidies to operational subsidies. (6) Completed PPP projects can be used as collaterals based on legal approval process. The land-use rights should remain unchanged and be returned to the government after the expiration of the contract. (7) Establish financial supporting funds for PPP projects, and coordinate with the supporting fund established by MOF. (8) Provide policy support to innovative financial services, encourage franchises pledge, asset securitization and other innovative financial products.

7. Finance authorities of Jilin Province achieved breakthroughs

in using agriculture-related fiscal resources to increase financial support for agriculture

According to the news released by the Finance Department of Jilin Province on May 23, it has taken the opportunities offered by reform and innovation to make a meaningful attempt of using agriculture-related fiscal resources to increase financial support for agriculture. (1) It consolidated all sorts of agriculture-related fiscal funds, properly increased the size of such funds, and used the funds more effectively. (2) It studied and introduced all sorts of supportive policies to increase financial support for agriculture and make more science-based decisions on supporting agriculture. (3) It created the performance evaluation mechanism for the agriculture-related services of financial institutions, encouraged and guided financial institutions to increase credit supply to key agriculture-related infrastructure projects, agribusinesses, and rural households. (4) It made available 1.23 billion RMB to set up the provincial agricultural credit guarantee agency, which will gradually establish branches in major and non-major grain-producing counties. (5) It enhanced the integration between fiscal funds and financial and private capital.

8. The Finance Department of Gansu Province took five measures to comprehensively regulate the payment of provincial budget units

According to the news released by the Finance

Department of Gansu Province on May 25, it has taken five measures to comprehensively regulate the payment of provincial budget units. (1) The threshold for the single direct fiscal payment is raised from 50,000 RMB to 100,000 RMB; the threshold for the single payment of expenditures on basic construction, other capital and debt principal and interests is raised from 500,000 RMB to 1 million RMB. (2) The budget unit shall follow relevant regulations and use fiscally authorized payment for the expenditures on wage and benefits, goods and services and subsidies to individuals and households that are below the threshold for the single direct fiscal payment. (3) The *Measures for the Use and Administration of the Government Credit Card of the Budget Units in Gansu Province* shall be strictly enforced. (4) The scope for the permitted use of cash and the amount of cash withdrawal shall be strictly controlled, and the use and withdrawal of cash shall be governed by the *Circular on Further Strengthening the Cash Management of Provincial Budget Units*. (5) The accountability of government departments (units) shall be enhanced.

V. Remarks and Opinions

1. Lou Jiwei: rating agencies are biased

In a response to recent downgrading of Chinese

sovereign credit rating outlook to “negative” by two rating agencies, Finance Minister Lou Jiwei said in a speech that the downgrading has not reflected the actual situation of the Chinese economy. Moody’s and Standard & Poor’s have cited the rationale behind the negative rating as concerns over China’s economic slowdown, higher government debt, increased capital outflows and doubts on the macro-management capabilities and reform determination of the Chinese government. But the outlook did not reflect the actual situation of China’s economy. The recently published first-quarter GDP growth was 6.7%, a considerably high level. Though the figure was slightly lower than last year, it was within the expectation range. In terms of government debt, China has taken measures to curb the rising debt of local governments. The debt level of the central government is not very high, and it is to help the deleveraging process of the private sector that the central government is taking on more debt. Such reforms take time, but rating agencies may not know that China is considering those reforms. The international community has been questioning the credibility of these rating agencies for some time. Historically, the market performance of China’s sovereign bond has been higher than the ratings for most of the time, which indicates that the rating agencies are “biased”. Rating agencies should carry out in-depth communication with the rated countries before making more objective and fair assessment. On the Chinese economic policy, Lou Jiwei said that on one hand, we are managing the aggregate demand management to keep growth at a reasonable range; on the other hand, we are focusing structural reforms on the supply side. Structural

reform has made significant progress, which will improve the allocation of resources and raise growth rate over the long-term. China's economy is also facing unfavorable factors such as aging population, so the policies and reforms must be "more forceful" to deal with downward pressure.

2. Zhang Gaoli: strengthening international tax cooperation to promote world economic development

In his recently published speech, Vice Premier Zhang Gaoli said that China attaches great importance to international tax cooperation. Chinese President Xi Jinping stressed the need for enhanced international tax cooperation, the combat of tax evasion and assistance to help developing and low-income countries with capacity building in tax matters. Premier Li Keqiang also made specific requirements in this regard. Tax is the pivotal foundation for state governance system and capacity as well as key means for global economic governance. Strengthened international tax cooperation will be critical for better protecting the tax interest and tax base safety of nations, promoting economic growth and raising people's wellbeing. 2016 is an important year for comprehensively implementing the outcomes of G20 tax reform. Zhang Gaoli raised three suggestions: (1) deepen international tax cooperation, build a mutually beneficial international tax relationship, earnestly strengthen international tax policy coordination and

tax administration cooperation, and jointly promote the development of international tax administration capacity. (2) Combat international tax avoidance and evasion, move faster to build a new order of international taxation featuring fairness, justice and openness, safeguard the tax interests of nations, protect the legitimate rights and interests of cross-border taxpayers, and regulate the conduct of cross-border taxpayers. (3) Promote inclusive development, scale up technical assistance and support in tax matters to developing countries, and help developing countries enhance their tax administration capacity. China is in the decisive stage of building a moderately prosperous society in all aspects. The Chinese economy has entered the New Normal and is faced with downside pressure, but it still has high resilience, great potential and ample room for maneuver, and the positive trend of its growth remains unchanged. We will stick to and pursue the development philosophy of innovative, coordinated, green, open and shared growth, adhere to the overall principle of progressing while maintaining stability, continue to carry out proactive fiscal policy and prudent monetary policy, make great efforts to promote supply-side structural reform and keep developing innovative means of macro management. We have introduced a series of significant measures, including tax reform measures. Since this year, the Chinese economy has been basically stable and moving forward in a steady way, and it has got off to a good start featuring economic growth, optimal economic structure and improved living standard of the people.

3. Wang Yang: promote integration of agriculture-related fiscal funds to improve the effectiveness of poverty reduction

Chinese Vice Premier Wang Yang said in a recent speech that promote integration of agriculture-related fiscal funds is the key to improve the effectiveness of poverty reduction and ensure financial resources for tackling poverty. Following the instruction of the CPC Central Committee and the State Council, and based on poverty reduction plans for poverty-stricken counties, we should focus on major poverty reduction projects by making coordinated use of agricultural related fiscal funds, so as to improve the effectiveness of poverty reduction efforts and achieve poverty alleviation. Integration of funds is a necessity for poverty reduction efforts, and also an integral part of deregulation and improvement of government services. The central, provincial (autonomous regions and municipalities), and city (prefecture) authorities should allow the funding for agricultural production and rural infrastructure construction to be pooled into poverty reduction funds in pilot counties. We should enhance fiscal resources for and policy support to poverty-stricken counties, while strengthening financial regulatory and policy related services. Piloting counties should design proper development plans, identify key projects and development agenda, improve fund management and decision-making process, adopt innovative funding mechanism, and emphasize supervision of funds management, all in an effort to improve the effectiveness of poverty reduction.

4. Hu Jinglin: focusing on five priorities to advance the agricultural modernization

In his recent speech, Vice Finance Minister Hu Jinglin said that the agricultural modernization requires the comprehensive development of agriculture to focus on the following priorities. (1) Spend funds mainly on the program of developing high-standard farmland and make great efforts to enhance the comprehensive production capacity of agriculture; catalyze financial and private capital alongside fiscal input for this program; develop a high-standard and substantive program; and improve the supporting facilities and supervision mechanisms to sustain the program's long-term benefits. (2) Ensure the high output of farm produce and, more importantly, shore up the weak links in the production chain, optimize the production structure and raise the quality and efficiency of product; support the formation of agricultural industrial chain and value chain and develop a modern agricultural production system; and study targeted supportive policies and specific measures. (3) Further optimize the overall development arrangement, apply differentiated policies to areas where development is encouraged, restricted and due consideration for conservation is required, and improve the dynamic management of county-level projects; make efficient water use an important criteria for the high-standard farmland, support the low-carbon agricultural technological equipment and facilities, support project areas where resources are over developed and the ecological environment is fragile to treat

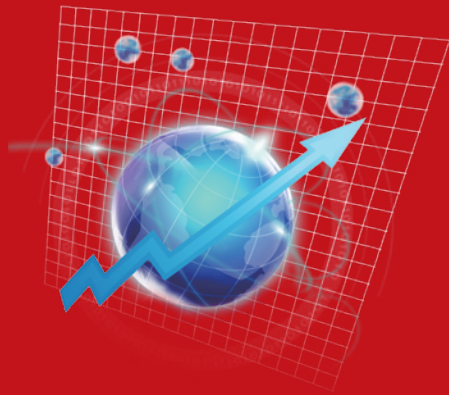
pollution, restore vegetation, and conserve ecological system; and promote the spread of improved grain variety and farming technology and methodology. (4) With national food security, higher agricultural efficiency and increased farmer income as targets, advance the development of high-standard farmland, agricultural industry and agriculture-related services, promote the orderly transfer of land operating rights, cultivate a new-type of agribusiness system, and develop diversified

and properly scaled-up operation of agriculture. (5) Further tilt project funding to poverty-stricken areas and earmark a certain proportion of funding to poor villages; while promoting the development of high-standard farmland and strengthening the foundation for agricultural and rural development, make greater efforts to support poor areas to take advantage of local resources to develop agricultural industries with local specialty to eradicate poverty.

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