

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Xiao Jie reported on the progress of deepening the reform of the fiscal transfer payment system during the 3rd plenary meeting of the 25th session of the 12th National People's Congress Standing Committee
- Vice Finance Minister Shi Yaobin: PPP reform is faced with bottlenecks and challenges which requires urgent attention
- MOF published a circular on administering the budget execution of the central budgetary units in 2017
- MOF published a circular on implementing supportive tax policies to reduce enterprise leverage
- Economic performance of SOEs from January to November

# Brief Introduction to IEFI

The International Economics and Finance Institute (known as IEFI) 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.

IEFI is committed to be a world-class economic think tank.

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## I. Policy Update

### 1. MOF published a circular on administering the budget execution of the central budgetary units in 2017

On December 5, the Ministry of Finance (MOF) published a circular on administering the budget execution of the central budgetary units in 2017, which provides the following. (1) The time, content, approval, adjustment and other matters related to the submission of the budgetary units' spending plan are still governed by the existing regulations. (2) Basic expenses are carried over by budget items and project expenses are carried over by budgeted projects. (3) When using the funds, the budgetary units can choose for themselves the payment method according to the criteria provided by MOF. (4) The payment method for the surplus funds of the treasury centralized payment in 2016 shall be re-determined by following the new criteria. (5) Some budgetary units, such as the secondary and primary schools affiliated to central universities funded by public finance, shall be covered in the administration of centralized treasury payment. Unless otherwise authorized or approved by MOF, budgetary units shall not transfer funds from their zero-balance accounts to the funded accounts of themselves or other bodies affiliated to them.

### 2. MOF published a circular on the tax policies for imported seeds and provenances during the 13th Five-Year Plan period

On December 5, MOF published a circular on the tax policies for imported seeds and provenances during the 13th Five-Year Plan period, which provides the following. (1) The scope of tax exemption covers the seeds (seedlings), breeding stock (poultry), fish seeds (fry) and wild fauna and flora provenances that are closely related to agriculture and forestry and are directly used for or serve agriculture and forestry production. (2) For their tax-free imports, seeds and seedlings shall be both on the list of tax-free goods and used for or serve agriculture and forestry production. (3) For their tax-free imports, wild fauna and flora provenances shall be both on the list of tax-free goods and be used for science research, breeding or reproduction. (4) MOF, the General Administration of Customs (GAC) and the State Administration of Taxation (SAT) and other government departments will monitor and inspect the policy enforcement when appropriate.

### 3. MOF published a circular on implementing supportive tax policies to reduce enterprise leverage

On December 6, MOF published a circular on implementing supportive tax policies to reduce enterprise leverage, which provides the following. (1) The enterprises that carry out equity (asset)

acquisition, merger and other restructuring consistent with the tax laws will be eligible for deferred payment of income tax. (2) The enterprises that invest with nonmonetary assets will be allowed to pay income tax in installments within 5 years. (3) In case of bankruptcy and liquidation, the relevant liquidation expenses as well as the salary, social insurance and indemnity of employees are eligible for pre-tax deduction. (4) The loss suffered by enterprises as creditors, if consistent with the tax laws, can be deducted when the payable income tax is calculated. (5) The loan loss provision drawn by financial enterprises, if consistent with the tax laws, can be deducted before the corporate income tax. (6) The transfer of goods, real estate and land use rights involved in the transfer of physical assets, wholly or partially, to other entities and individuals in the process of corporate restructuring, if consistent with relevant regulations, can be exempted from VAT. (7) The land value-added tax, deed tax and stamp tax arising from the corporate restructuring, if consistent with relevant regulations, will be eligible for preferential policies. (8) Tax payers that meet the conditions for credit asset securitization are eligible for relevant preferential policies.

#### **4. MOF published the *Measures for Administering the Calculation and Payment of Correspondent Banking Service Fees for the Centralized Treasury Payment***

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On December 7, MOF published the *Measures for Administering the Calculation and Payment of Correspondent Banking Service Fees for the Centralized Treasury Payment*, which provide the following. (1) The service fees are calculated on the basis of the service type, business volume and annual evaluation results of the correspondent bank. (2) The head office of the correspondent bank shall calculate the relevant fees in January by following the stipulated standards and submit them to MOF by January 15. (3) On the basis of the documents submitted by the head office of each correspondent bank, MOF calculates the amount of annual service fees of each correspondent bank by considering the actual services provided by it, the business volume and the payment standards. (4) MOF determines the service quality rating of the correspondent bank in accordance with the annual evaluation results, and verifies the finalized amount of annual service fees to be paid to each correspondent bank. (5) MOF pays service fees to the head office of each correspondent bank before April 10 of each year.

#### **5. The State Council published several opinions on improving policies to support the continued income increase of farmers**

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On December 7, the General Office of the State Council published several opinions on improving policies to support the continued income increase of

farmers, which provide the following. (1) Improve pro-agriculture system and tap the potential of income growth within the agricultural sector. Increase investment in agricultural infrastructure, revamp policies of agricultural subsidy, improve agricultural structural adjustment policies, reform the price formation mechanism of agricultural products, improve supportive policies for new agri-businesses, strengthen rural financial services, develop innovative agricultural insurance products and services, and explore new modalities to leverage financial resources to support agriculture. (2) Strengthen pro-employment and pro-entrepreneurship policies, and expand the channels of income increase for farmers. Enhance the training of the new-type and professional farmers, ensure equal employment conditions for urban and rural laborers, support business start-up of farmers, encourage industrial and commercial capital to invest in rural areas and agriculture, and improve the benefits-linking mechanism of the industrial chain. (3) Build a long-term mechanism for the integrated development of urban and rural areas and unlock the potential for income increase of farmers. Deepen the reform of the collective property right system in rural areas, unleash the vitality of rural resources and assets, and maximize the catalytic effects of the new-type of urbanization.

## **6. MOF published the *2016-2020 Plan for the Development of Intelligent Manufacturing***

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On December 8, MOF published the *2016-2020 Plan for the Development of Intelligent Manufacturing*, which provides the following. (1) Accelerate the development of intelligent manufacturing equipments, and focus on the key areas of sensing, control, decision making and enforcement. (2) Enhance the innovation of key generic technologies, and provide technology support for the transition towards intelligent manufacturing equipments and process. (3) Develop a standard system for intelligent manufacturing. (4) Build a validation platform and identification system for industrial internet and promote the upgrading of intranet. (5) Develop pilot programs on the new modalities of intelligent manufacturing in the key regions and areas with favorable conditions and urgent needs. (6) Promote smart transformation of the ten key areas identified in the *Made in China 2025*. (7) Advance the smart development of SMEs. (8) Cultivate an ecosystem for intelligent manufacturing. (9) Develop the clustering of industries for intelligent manufacturing equipments, promote differentiated development of intelligent manufacturing across regions, and strengthen the synergy of intelligent manufacturing resources in different regions.

## **7. MOF issued the *Measures for the Administration of Water Conservancy Funds by the Central Government***

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On December 12, MOF issued the *Measures for the Administration of Water Conservancy Funds by the*

*Central Government*, which provides the following.

(1) The administration of water conservancy funds is jointly managed by MOF and the Ministry of Water Resources(MWR). (2) The funding expenditure covers farmland water conservancy development and comprehensive management of groundwater overdraft area. (3) MOF and MWR are to jointly prepare the three-year rolling planning and annual budget for the water conservancy funds. (4) The central finance authority is to mainly use the factor approach when allocating the water conservancy funds. (5) Local water conservancy authorities at various levels should work together with local finance authorities to disburse the funds to projects, through competitive selection of projects and improved project pool. (6) The incentives from the water conservancy funds are to be provided after the completion of projects, in the form of awards rather than subsidies, and to support private projects. (7) Finance authorities at various levels are to work jointly with water conservancy authorities to make consolidated use of the funds. (8) The funds are to be disbursed in accordance with the provisions of the centralized treasury payment system. (9) Finance authorities at various levels are to work jointly to improve the budget performance of the water conservancy funds.

## **8. MOF issued a circular on the standards for real estate registration fees**

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On December 13, MOF issued a circular on the

standards for the real estate registration fees. (1) When real estate registration agencies above the county level register the rights of real estates, the fees should be varied in accordance with different circumstances. (2) When real estate registration agency levies registration fees in accordance with provision (1), the first real estate ownership certificate is free of charge, while each additional certificate is charged for 10 RMB. (3) Fees for the application of correction and disputed registration of real estate are levied at a discount. (4) The real estate registration fee is charged by piece, not proportionate to the space, size or price of the real estate. (5) The real estate registration fee is to be paid by the registration applicant.

## **9. MOF issued guiding opinions on poverty alleviation through employment support**

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On December 13, MOF issued guiding opinions on poverty alleviation through employment support, which provided the following. (1) Local poverty-relief authorities should, based on record filing, further collect basic employment information on the poor population. (2) Local authorities should work hard to create additional job opportunities for nearby workforce in poverty. (3) Local authorities should make good use of the cooperation mechanism between eastern and western regions and the inter-provincial assistance mechanism, carry out inter-provincial labor cooperation, and actively promote

labor cooperation between economically advanced regions and poverty-stricken areas. (4) Relevant authorities should actively organize regular, pre-job, tailored and skills-upgrading training for poor laborers, and improve the relevance and effectiveness of the training programs. (5) Efforts should be taken to safeguard the rights and interests of poor laborers by urging enterprises to enter into formal labor contracts and contribute to social insurance.

## 10. MOF issued the *Accounting Treatment Provisions for VAT*

On December 14, MOF issued the *Accounting Treatment Provisions for VAT*. (1) VAT payers are subject to VAT payable, unpaid VAT and pre-paid VAT under the tax item of tax payable. (2) At the end of each month, enterprises should transfer the unpaid or over-paid VAT of the month from the item of VAT payable to unpaid VAT of the month. (3) Small and micro enterprises, when qualified for VAT exemption, should transfer VAT payable to current profits and losses. (4) At the beginning of the month when covered into the VAT pilot program, the former general VAT payers are eligible to tax deductibles which are used to exclude output VAT for sales of services, intangible assets or real estate.

## 11. MOF issued a circular on reducing purchase tax for vehicles

## of and under 1.6 L emissions

On December 15, MOF issued a circular on reducing purchase tax for vehicles of and under 1.6 L emissions. (1) From January 1 to December 31, 2017, the purchase tax for vehicles of and under 1.6 L emissions is levied at a reduced rate of 7.5%. Starting from January 1, 2018, the vehicle purchase tax is to restore to the statutory rate of 10%. (2) The date of vehicle purchase is taken as specified on the *Standard Invoice for Motor Vehicle Sales* or the *Special Certificate for Tariff Payment*. (3) The purchase tax of new energy vehicles is administrated by the *Notice on the Exemption of Purchase Tax for New Energy Vehicles*, which was jointly issued by MOF, SAT and the Ministry of Industry and Information Technology.

## 12. The State Council published a circular on the lump-sum rebate of VAT to local governments

On December 16, the State Council published a circular on the lump-sum rebate of VAT to local governments. In order to further improve the tax-sharing regime and implement the interim scheme that adjusts the division of VAT revenue between the central and local governments after the full roll-out of VAT reform pilot, the State Council decided that starting from 2016, the previous practice of VAT rebate to local government will be adjusted. Specifically, the baseline for rebate is shifted from the VAT method established in 1994 when the

tax-sharing regime was enforced to the lum-sum method established in 2015, and the regions that have seen increase or decrease of VAT will not get corresponding amount of VAT rebate or deduction. The specific baseline of rebate will be determined by MOF.

### 13. MOF published a circular on the work of financial final accounts of central cultural enterprises in 2016

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On December 19, MOF published a circular on the work of financial final accounts of central cultural enterprises in 2016. (1) Improve the management of financial final accounts, refine the working mechanism, develop innovative working methods, and strengthen the financial foundation. (2) Enhance operation management and improve the functions of financial final accounts. The competent authorities and central cultural enterprises shall give full play to the functions of financial final accounts, comprehensively take stock of the assets of those enterprises, strengthen the analysis of financial final accounts, and utilize the outcomes of the work related to final accounts. (3) Enhance the rectification of problems and give full play to the role of audit oversight. The competent authorities and central cultural enterprises shall strengthen audit oversight, seriously address the problems identified by audit, select accounting firms according to rules, improve the audit quality of financial

final accounts, and enhance the rectification of problems identified by audit. (4) Regulate the review of final accounts and submit final accounts report and other documents on time.

### 14. MOF published the *Interim Measures for the Local Government Debt Oversight by the Inspector's Office Affiliated to MOF*

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On December 20, MOF published the *Interim Measures for the Local Government Debt Oversight by the Inspector's Office Affiliated to MOF*. (1) Provincial finance authorities are responsible for the management of local government debt, and the Inspector's Office will exercise daily oversight over local government debt in accordance with relevant regulations and requirements of MOF. (2) The oversight of the Inspector's Office covers the debt limit management, budget management, risk warning and contingency response of local government debt as well as the borrowing by local governments and financing vehicles. (3) The Inspector's Office shall establish regular oversight mechanisms for local government debt. (4) Oversight shall be strengthened in high-risk areas and risks be periodically assessed. (5) Local finance authorities shall cooperate with the Inspector's Office by timely providing relevant information, documents and data and ensuring their truthfulness, accuracy and completeness.

### **15. The State Council published the *Plan on the Development of National Strategic and Emerging Industries during the 13th Five-Year Plan Period***

On December 20, the State Council published the *Plan on the Development of National Strategic and Emerging Industries during the 13th Five-Year Plan Period*. (1) Pursue innovation-driven development by implementing the “Made in China 2025” strategy. (2) Get China better connected to the Internet and accelerate the development of “digital China”. (3) Promote breakthroughs in high-end equipment and new-material industry and move towards new progress in China’s manufacturing industry. (4) Advance the precise and personalized healthcare and expedite the transformation to highly efficient precision agricultural breeding. (5) Promote rapid expansion of the new-energy vehicles, new energy and energy-efficient and environmentally friendly industries, and build a new model for sustainable development. (6) Promote the development of cultural and creative industry by deploying digital technology and advanced ideas. (7) Keep fostering new industries with a focus on the key areas related to space, sea, IT and internet. (8) Promote the clustering of strategic and emerging industries and the coordinated development of industries. (9) Implement the strategy of opening-up and development, and build a new mechanism for international coordination of strategic and emerging industries. (10) Improve institutional mechanism and policy framework and foster a new ecology for development.

### **16. MOF published a circular on further strengthening the equity management of state-owned financial enterprises**

On December 21, MOF published a circular on further strengthening the equity management of state-owned financial enterprises. (1) All finance authorities shall strengthen the oversight of state-owned financial assets and improve the basic management system. (2) Equity management of the state-owned financial enterprises shall follow the principle of unified policy and tiered management, and be subject to the oversight of the central and local finance authorities. (3) The equity management covers the incorporation, change of share nature, and the increase or decrease of capital and share. (4) All finance authorities shall strictly regulate the procedural and transactional behaviors such as the certification and registration of financial assets. (5) All finance authorities shall strengthen the regulation of the capital and share increase of the state-owned financial enterprises. (6) The centrally managed financial enterprises and local finance authorities shall establish and improve the reporting system on the state-owned equity management of financial enterprises. (7) Local finance authorities may formulate the detailed rules for managing the equity of the local state-owned financial enterprises in accordance with the requirement of this circular and in light of the local circumstances.

## 17. MOF published a circular on clarifying the VAT policy for finance, real estate development and educational support services

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On December 21, MOF published a circular on clarifying the VAT policy for finance, real estate development and educational support services. (1) The non-principal-guaranteed return derived from the financial products during the holding period is exempted from VAT. (2) The asset managers shall pay VAT incurred in the process of operating asset management products. (3) The compensation for demolition and relocation paid by the general taxpayers of real estate developers to other units or individuals when they acquire lands for real estate development is also eligible for deduction in the calculation of their sales value. (4) The take-away food sold by the tax payers that provide catering services shall pay VAT according to the rules under the “catering services”. (5) The educational support services provided by the general tax payers may follow the simple calculation method to calculate and pay VAT at 3%. (6) The armed guard and escort services provided by tax payers shall pay VAT according to the rules under the “security protection services”. (7) The home-decorating services offered by property-service providers to home owners shall pay VAT according to the rules under the “building services”.

## 18. MOF issued a circular on adjusting

## tariffs for some import and export items starting from January 1, 2017

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On December 23, MOF issued a circular on adjusting tariffs for some import and export items starting from January 1, 2017: the provisional tax rate will be reduced for the imports of IC testing and sorting devices, as well as for hydraulic actuator of aircrafts. Import tariffs will be reduced for consumer goods such as tuna and arctic shrimp, and for anti-cancer drug ingredients such as yew bark and branches. Export tariffs will be removed for commodities such as nitrogen fertilizer, phosphate fertilizer and natural graphite, while those for NPK compound-fertilizer, billet steel and ferrosilicon will be reduced. Negotiated tariffs will continue to be applied to certain imports from 25 countries or regions, and those negotiated with South Korea and Australia will further be reduced.

## 19. MOF issued a circular on adjusting the management requirements for designated accounts at central budgetary units

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On December 26, MOF issued a circular on adjusting the management requirements for designated accounts at central budgetary units, which provides the following. (1) For central SOEs, their affiliates and central units with both commercial and public functions which receive no budgetary fiscal funding, the finance authority will no longer conduct approval

and record-filing on the designated accounts, and the accounts should be put under the supervision of the units. (2) The accounts for regular deposit, foreign exchange and special deposit are continue to be approved and managed by the finance authority, while the record-filing requirement for the loan-to-deposit account is changed to independent management by the units. (3) The annual inspection for the accounts is to be replaced by a biannual inspection cycle, during which 50% of the accounts is to be put under review each year. (4) A sampling inspection mechanism is to be established for the bank accounts at central units.

## **20. MOF issued the *Provisions for the Account Treatment on Business Bankruptcy Liquidation***

On December 27, MOF issued the *Provisions for the Account Treatment on Business Bankruptcy Liquidation*, which provides the following. (1) When an enterprise is declared bankrupt by court, the initial confirmation of its assets should be measured in net terms on the date of bankruptcy. (2) The assets of the bankrupt enterprise recognized during the liquidation process shall be measured in net terms and add to the initial confirmation. (3) In case of assets disposal during the liquidation process, the difference between the disposal proceeds and the book value of the disposed assets, deducting direct disposal costs, should be recorded under liquidation gains and losses. (4) Costs occurred or proceeds

gained during the liquidation process should be directly included into the liquidation gains and losses. (5) During the liquidation process, if the bankrupt enterprise is required to pay income tax, the tax payable shall be calculated and included in the liquidation gains and losses.

## **21. MOF issued guidance on supporting the development of social organizations through government procurement of services**

On December 29, MOF issued guidance on supporting the development of social organizations through government procurement of services, which provides the following. (1) There are qualification requirements for social organizations to provide government procured services, but no specific requirement for their length of existing. (2) Based on procurement needs and professional strengths of social organizations, local governments and relevant authorities should specify priorities for supported government procurement. (3) Working procedures should be improved to enhance efficiency, including project application, budget preparation, procurement organization, project supervision and performance evaluation. (4) Social organizations should strictly fulfill the contracts under the supervision of procurement authorities. (5) Training and demonstrative platform for social organizations to provide government procured services should be strengthened.

## 22. MOF issued guiding opinions for reforms of government procurement of services in public institutions

On December 29, MOF issued guiding opinions for reforms of government procurement of services in public institutions, which provides the following. (1) By the end of 2020, services which are provided by category II public institutions and can be outsourced should be obtained through government procurement rather than using fiscal resources. (2) Fiscal and human resource arrangements should be explored for supporting government procurement of services. (3) Services which are currently provided by public institutions and can be outsourced should be included into the catalog of government procurement of services. (4) Public institutions' incomes from providing services to government procurement should be included into the budget accounting of the institutions, and eligible to relevant tax credits.

## II. Facts & Figures

### 1. MOF issued 12 billion RMB of RMB-denominated treasury bonds in Hong Kong

According to the news released by MOF on December 8, MOF has issued 10 billion RMB of RMB-denominated treasury bonds to institutional investors in Hong Kong, including 5 billion RMB

of 3-year bonds, 3 billion RMB of 5-year bonds, 1 billion RMB of 10-year bonds, 500 million RMB of 15-year bonds and 500 million RMB of 30-year bonds, with interest rates at 3.4%, 3.55%, 3.85%, 4.15% and 4.4% respectively. 2 billion RMB of 3-year bonds were also sold to foreign central banks and regional monetary authorities, with an interest rate on par with that of the treasury bonds of the same maturity.

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

The data released by the National Bureau of Statistics (NBS) on December 9 show that China's CPI rose by 2.3% year on year in November, among which, the CPI rose by 2.3% in urban areas and 2.0% in rural areas; 4.0% for food and 1.8% for non-food; 2.1% for consumer goods and 2.4% for services. The average CPI from January to November was up by 2.0% over the same period of last year. In November, CPI edged up by 0.1% month on month, among which, the figure rose by 0.1% in urban areas and 0.2% in rural areas; increased by 0.2% for food and 0.1% for non-food; went up by 0.3% for consumer goods and dipped by 0.1% for services.

### 3. China's fiscal revenue and expenditure in November

According to the data released by MOF on December 13, China's general public budget

revenue in November was 1149.1 billion RMB, an increase of 3.1% year on year. Among the total revenue, the central revenue was 567.2 billion RMB, an increase of 8.2%; the local revenue was 581.9 billion RMB, down by 1.4%. The total tax revenue was 855.4 billion RMB, down by 2.5%, however, if noncomparable tax rebate is excluded, the tax revenue grew by 3.3%. The national general public budget expenditure was 1806.4 billion RMB, an increase of 12.2%. Among the total expenditure, the central expenditure was 219.2 billion RMB, an increase of 12.4%; the local expenditure was 1587.2 billion RMB, an increase of 12.1%. From January to November, the revenue from national government funds was 3885 billion RMB, an increase of 15.4%; the expenditure from government funds was 3599.4 billion RMB, up by 10.2% year on year.

#### 4. Total retail sales of consumer goods in November grew by 10.8%

According to the data released by NBS on December 13, in first eleven months of 2016, the total retail sales of consumer goods reached 3,095.9 billion RMB, up by 10.8% year on year on nominal terms. Of the total, the retail sales of consumer goods of units above designated size were 1,479.2 billion RMB, increasing 9.5%. From January to November, the total retail sales of consumer goods reached 30,056.0 billion RMB, up by 10.4% year on year. Of the total, the retail sales of consumer goods of units

above designated size were 13,720.3 billion RMB, increasing 7.9%. In terms of different consumption patterns, the catering services in November gained 334.2 billion RMB, up by 10.1% year on year. The retail sales of goods gained 2,761.7 billion RMB, up by 10.9%. From January to November, the catering services gained 3,244.7 billion RMB, up by 10.8% year on year. The retail sales of goods gained 26,811.3 billion RMB, up by 10.3%. From January to November, the national online retail sales of goods and services were 4,599.0 billion RMB, increasing 26.2% year on year.

#### 5. Investment in fixed assets grew by 8.3% in the first 11 months

According to the data released by NBS on December 13, in the first eleven months of 2016, the investment in fixed assets reached 53,854.8 billion RMB, up by 8.3% year on year in nominal terms, and the growth rate remained at the same level compared with that in the first ten months. In term of different industries, the investment in the primary industry was 1,709.9 billion RMB, up by 21.9% year on year; that in the secondary industry was 21,006.2 billion RMB, up by 3.3 %; that in the tertiary industry was 31,138.7 billion RMB, up by 11.3%. In terms of jurisdiction of project management, the central investment reached 2,151.5 billion RMB, increasing 0.7% year on year; the local investment was 51,703.3 billion RMB, up by 8.8%.

## 6. The electricity use of industrial sector increased by 5.9% year on year in China in November

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The data released by NBS on December 15 show that the electricity use of industrial sector increased by 5.9% year on year in November, up by 1.0 percentage point over last month, contributing 62.9% to the increase of overall electricity use in China. Specifically, the electricity use rose by 3.8% for the mining sector, up by 2.4 percentage points; 6.9% for the manufacturing sector, up by 1.2 percentage points; 3.2% for the production and supply sector of power, gas and water, up by 0.4 percentage point. The electricity use went up by 11.8% for the tertiary industry year on year in November, down by 1.7 percentage points over the last month; rose by 9.0% for urban and rural residents, down by 3.2 percentage points. The combined electricity use of tertiary industry and residents contributed 35.1% to the increase of overall electricity use in China.

## 7. Lottery sales in November 2016

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According to the data released on December 23 by MOF, the national sales of lottery in November totaled 34.482 billion RMB, increasing by 3.852 billion RMB over the same period of last year, an increase of 12.6%. Among the total sales, welfare lottery sales were 17.861 billion RMB, an increase of 839 million RMB, up by 4.9%. Sports lottery sales were 16.621 billion RMB, growing by 3.013 billion RMB, an increase of 22.1%. From January

to November, the nationwide lottery sales were 358.048 billion RMB, an increase of 24.284 billion RMB, an increase of 7.3%. Among the total sales, welfare lottery sales were 186.508 billion RMB, an increase of 4.21 billion RMB, up by 2.3%; sports lottery sales were 171.54 billion RMB, an increase of 20.074 billion RMB, an increase of 13.3%.

## 8. Economic performance of SOEs from January to November

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According to the data released on December 27 by MOF, from January to November, the total revenue of SOEs was 40788.94 billion RMB, up by 2.4% year on year; the total operating costs were 39750.04 billion RMB, an increase of 2.2%, of which sales expenses, management spending and financial costs were up by 6.6%, 7.1% and down by 4.2% respectively. The total profit was 2110.1 billion RMB, up by 2.8% year on year; the tax payable was 3387.26 billion RMB, down by 0.8% compared with the same period of last year. As of the end of November, the total assets of SOEs were 131.95586 trillion RMB, an increase of 10.6%; the liabilities totaled 87.61781 trillion RMB, an increase of 10.9%; the owner's equity was 44.33805 trillion RMB, an increase of 10.1%.

## 9. Total profits of industrial enterprises above designated size increased by 9.4% in the first eleven months of 2016

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According to data released on December 27 by

NBS, the profits made by industrial enterprises above the designated size achieved 6,033.41 billion RMB in the first eleven months of 2016, a year-on-year increase of 9.4%, and the growth rate was up by 0.8 percentage point over the first ten months. In the first eleven months, the profits of state-holding industrial enterprises above the designated size gained 10,97.49 billion RMB, increased by 8.2% year on year; those of collective-owned enterprises reached 42.06 billion RMB, a decrease of 3.7%; those of joint-stock enterprises stood at 4,134.24 billion RMB, up by 9.9%; that of foreign-funded enterprises, and enterprises funded by Hong Kong, Macao and Taiwan achieved 1,507.36 billion RMB, increasing by 10.8%; and those of private enterprises gained 2,116.9 billion RMB, an increase of 5.9%. In the first eleven months, the profits of mining and quarrying reached 154.98 billion RMB, a decrease of 36.2% year on year; those of manufacturing were 5,430.68 billion RMB, an increase of 13.7%; those of production and distribution of electricity, heat, gas and water reached 447.75 billion RMB, down by 10.1%.

### III . MOF Events

1. On November 30, MOF held a seminar in Beijing to study the use of asset income for poverty reduction. Vice Finance Minister Hu Jinglin attended and addressed the seminar.

2. On December 1, Vice Finance Minister Zhu Guangyao attended the G20 Finance and Central Bank Deputies Meeting in Berlin. On the sidelines, he also attended the Launching Ceremony of Germany's G20 Presidency, "Troika" Finance and Central Bank Deputies Meeting, G20 High-level Seminar on Strengthening Global Economic Resilience, and the First Meeting of the G20 Advisory Panel on the Promotion of African Investment.

3. On December 5, Vice Finance Minister Zhu Guangyao and Under Secretary Nathan Sheets of the U.S. Treasury co-chaired the 11th China-US Joint Economic Committee (JEC) in Beijing.

4. On December 10-11, the ASEAN and China, Japan and South Korea (10+3) Finance and Central Bank Deputies Meeting was held in Guiyang. Vice Finance Minister Shi Yaobin and Assistant Governor Yin Yong of PBOC, together with Vice Finance Minister Thipphakone Chanthavongsa and Central Bank Vice President Vathana Dalaloy of Laos, co-chaired the meeting. At the margin of the meeting, Vice Minister Shi Yaobin attended the ASEAN+3 Financial Forum sponsored by ASEAN+3 Macroeconomic Research Office (AMRO) and delivered a keynote speech.

5. On December 12, during his trip to the ASEAN+3 deputies meeting of finance ministers and central bank governors, Vice Finance Minister Shi Yaobin made a special trip to Guizhou Inspector's Office to conduct research and give guidance.

6. On December 21, Vice Finance Minister Shi Yaobin and the New Development Bank (NDB) President Kamath signed the *Loan Agreement* for the Shanghai Lingang Distributed Solar Power Project at the Headquarters of the NDB.

7. On December 23, the 3rd plenary meeting of the 25th session of the 12th National People's Congress Standing Committee was held. Finance Minister Xiao Jie reported on the progress of deepening the reform of the fiscal transfer payment system.

8. On December 27, MOF and SAT jointly held a media briefing on the VAT reform. Vice Finance Minister Zhang Shaochun and Mr. Wang Jianfan, Director General of Tax Policy Department, briefed on the full roll-out of VAT reform, and answered questions from the media.

9. On December 29, Finance Minister Xiao Jie chaired a national finance work conference in Beijing and delivered a speech.

According to the news released by the Finance Department of Shaanxi Province on December 5, the government of Yulin City has introduced measures to support the promotion of PPP pilot projects. First, for each city-level demonstration PPP project, the finance authorities of Yulin will provide 0.3 to 1 million RMB of subsidies and 3 to 5 million RMB of rewards. Second, a fund dedicated to the financing of PPP projects in Yulin will be set up. Third, if the pilot PPP projects involve government spending obligations, the finance authorities at the city and county level shall incorporate them into their annual fiscal expenditure budget and medium and long term fiscal plan. Fourth, financial institutions or quasi ones are encouraged to explore credit products and financing services that suit the features of PPP projects. Fifth, supportive land policies are introduced. Sixth, city and county-level government are required to improve the mechanism for the adjustment of public service prices. Seventh, a public service platform for PPP projects is required to be quickly established.

## 2. The Finance Bureau of Wuhan City, Hubei Province has fully advanced the development of the internal control system featuring "1+6+N"

According to the news released by the Finance Department of Hubei Province on December 8, the Finance Bureau of Wuhan City has fully advanced

## IV. Local Finance

### 1. Yulin City, Shaanxi Province has introduced 7 measures to support the promotion of PPP

the development of the internal control system with “1+6+N” at its center. First, a committee on the internal control work was set up in the Finance Bureau to oversee the internal control work. Second, a dedicated working group was created to thoroughly study the relevant documents. Third, study sessions were conducted to collect and study information from various channels. Fourth, *Notice on Soliciting Comments* was issued to seek the opinions of relevant divisions and revise the documents on the basis of those comments. Fifth, a bureau-wide meeting was organized to review the basic control system and the 6 risk management measures with a view to refining and finalizing the comments. Sixth, in accordance with the comments from the review, a director general-level official was designated to lead a team to revise and refine the basic control system and the 6 risk management measures in detail.

### **3. Yunnan Province introduced the *Management Measures for the Earmarked Transfer Payment for Village Public Welfare Projects on a Case-by-Case Basis***

According to the news released on December 12 by the Finance Department of Yunnan Province, the Office of Rural Comprehensive Reform Leading Group of Yunnan issued the *Management Measures for the Earmarked Transfer Payment for Village Public Welfare Projects on a Case-by-Case Basis*,

which provided the following. (1) The transfer payment is disbursed based on the factor approach. The approval procedure is decentralized and streamlined, and various funds are to be consolidated to support poverty alleviation. (2) Advance planning and guidance is to be given to projects preparation, and a supervision mechanism is to be established to cover the whole process of the projects. Authorities at various levels should take corresponding responsibilities. Performance evaluation is to be carried out and the results are to be applied for future funding allocations. (3) The distribution arrangement, process and results of the transfer payment should be made public. Project organizers should disclose the use of the village-raised funding and transfer payment. (4) An interconnected oversight mechanism should be established to include auditing and supervision of the funds.

### **4. Bozhou City of Anhui Province improved five mechanisms to enhance the safety and efficiency of fiscal funds**

According to the news released on December 13 by the Finance Department of Anhui Province, Bozhou City has recently introduced the *Management Measures for the Fiscal Funds in Bozhou*, which provided the following. (1) The finance authority is responsible for the development of the management, budget approval, funding disbursement, supervision and performance evaluation of the fiscal funds.

(2) Special funds should be properly established, with corresponding management measures and an execution term of 3-5 years. Funding allocation should follow the factors method, projects method, or a combination of both. (3) For all the funds allocated to villages, relevant information relating to the arrangement and disbursement of the funds should be made public at the county, township and village levels. (4) The whole-process budget performance management mechanism should be established. Projects without required performance targets cannot receive budget funding, while those which fail to meet the target or miss the deadline should have their budget reduced. (5) Financial disciplines should be strengthened by establishing a “zero tolerance” mechanism for violation.

## 5. Finance authorities of Hubei Province took four measures to promote PPP

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According to the news released by the Finance Department of Hubei Province on December 19, it has solidly promoted PPP to inject new vitality to the supply-side structural reforms of Hubei. (1) The division of responsibility and the policy support for advancing PPP are clearly specified. PPP experts are openly solicited and a PPP expert pool is created to make the management of PPP projects more science-based and well-regulated. (2) Radio, television, press, internet and other media are fully used to raise the publicity of PPP. MOF

officials and relevant experts are invited to training sessions targeting local government leaders as well as officials from finance and competent authorities in Yichang, Xianning and Ezhou. (3) Innovative modalities for PPP are actively explored and the cooperation with international financial institutions is strengthened. (4) The finance authorities in all cities, prefectures and counties as well as relevant provincial government departments are required to conduct self-inspection and oversight to ensure clear accountability and accurate data collection.

## 6. The Finance Bureau of Chongqing Municipality took five steps to evaluate the performance of budget management in municipal government departments

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According to the news released by the Finance Bureau of Chongqing Municipality on December 20, it has required accountability throughout the process of budget management in municipal government departments. (1) All aspects of budget compilation, approval, execution, final accounts and disclosure are subject to better regulated management. (2) 18 indicators are developed for the compilation of revenue and expenditure budget, the execution of departmental budget, and the budget oversight. (3) All departments are required to make self-assessment of their budget management of the last year and report the results of their assessment. The Finance Bureau will verify and aggregate their reports on the basis of

the data from their departmental budgets and final accounts. The budget performance management will be exercised in a steady manner, and a performance target system be established so as to promote budget performance management at both the municipal and the district (or county) levels and cover all the project expenditure in municipal government departments.

### **7. Yunnan Province made innovative use of agriculture funds to facilitate pro-poor reform through capital gains**

According to the news released on December 26 by the Finance Department of Yunnan Province, the People's Government of Yunnan recently issued a *Circular on the Quantitative Reform of Converting Agricultural Funds to Equity Assets*, which provides the following. (1) By converting assets into equity, farmers are allowed to take equities and share in benefits, so as to make active use of rural assets. (2) Equities can be formed by assets invested by fiscal resources, including in agricultural facilities, aquaculture, photovoltaic projects, hydropower and tourism. (3) For assets of direct investments in farmers' cooperatives and rural collective economic organizations, the assets can be directly quantified. (4) Policy guidance should be improved, with standardized operational procedures for assets return and steady implementation. (5) Organization of the reform should be strengthened with specified roles and responsibilities for various authorities.

### **8. Shandong Province actively improved fiscal support for industrial policies, which boosted structural upgrading and enhanced economic efficiency**

According to the news released on December 29 by the Finance Department of Shandong Province, finance authorities in Shandong have improved fiscal support for industrial policies, which boosted structural upgrading and enhanced economic efficiency. (1) Comprehensive efforts were made to cut overcapacity, reduce costs, and shore up weak links of the national economy, with cutting costs as the main objective. (2) Policy support was given to guide enterprises to make innovations and strengthen new driving forces for the economy. (3) A series of policy measures were launched to help enterprises enhance their competitiveness. (4) Various funds were consolidated to explore market-based operations. Diversified supporting mechanisms are to be established, combining paid support, leading investment and result-based incentive subsidies.

## V. Remarks and Opinions

### **1. Xiao Jie: corporate tax cuts topped 500 billion RMB in 2016**

During his recent speech at the National Finance Work Conference, Finance Minister Xiao Jie

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pointed out that fiscal reform has made remarkable headways in 2016. First, effective proactive fiscal policy was implemented. The VAT reform was rolled out nationally, and the overall tax burden for newly covered sectors has been reduced. Corporate tax cuts topped 500 billion RMB in 2016. A number of government funds have been cancelled, stopped or combined. The exemption scope of relevant government funds and 18 types of administrative fees has been expanded. Second, efforts were made to cut overcapacity, reduce inventory, deleverage, reduce cost and shore up weak links of the economy. Special funds were established and allocated for the resettlement of workers in steel and coal industries in the process of cutting overcapacity. Support was given to the renovation of shantytowns and resettlement of residents. Reforms for the procurement and storage of important agricultural products were deepened. PPP was expanded in public service sectors. Third, fiscal and tax reforms were enhanced. VAT covered both goods and services. Resource tax was advanced and to be levied based on prices of resources. Water resources tax reform was piloted, and the tax legislation on environmental protection was promoted. Fourth, efforts were made to improve people's livelihood. A more active employment policy was introduced. The public expense standard for per student was unified for urban and rural areas to promote balanced development of education. Financially difficult students were exempt from tuition and fees. Reform was promoted for secondary vocational education

to gradually remove tuition and fees. Pension reforms were carried out in public institutions and ministries. Basic pension standards for retirees were further increased. Fifth, fiscal management and supervision was strengthened. Efforts were made to promote the introduction of the *Asset Evaluation Law*, to develop the implementation rules for law-based finance system, and clean up departmental rules and regulatory documents, to give play to the local advantages of the Inspector's office, and strengthen the supervision over local use of the central budget funds and transfer payments. Sixth, international financial cooperation was strengthened. MOF successfully held a series of meetings under the finance track of the G20 Summit, and achieved important outcomes in pushing relevant parties to advance structural reforms and promote infrastructure construction. The AIIB was officially launched. Support was given to the NDB to achieve its annual operational objectives. Bilateral and multilateral financial cooperation was strengthened.

## 2. Zhu Guangyao: the concept of inclusive development of the world economy will have far-reaching impact on the course of G20's development

Vice Finance Minister Zhu Guangyao said in his recent speech that the concept of inclusive development of the world economy has become the consensus of G20 countries and will have

far-reaching impact on the course of G20's development. G20 Hangzhou Summit placed particular emphasis on inclusive development, which directly responds to world's demands for shared development and addresses some issues related to the anti-globalization trend. Building on the success of the Hangzhou Summit, Germany will set the tone of its G20 presidency in 2017 to maintain the continuity with the development initiatives of the Hangzhou Summit, especially the inclusive development and the reform of the world economic governance. In the meantime, to implement these important consensus, Germany also identified three major tasks for its 2017 summit. First, strengthen economic resilience; second, increase investment in Africa; and third, develop digital economy. Investing in Africa also expands and reflects the inclusive development concept proposed by China, and needs to be prioritized as an important strategic task under Germany's G20 presidency in 2017. President Xi Jinping attaches great importance to Africa's development. China's initiatives and the consensus of the Hangzhou Summit will continue to move forward and become more specific under Germany's G20 presidency.

### **3. Shi Yaobin: PPP reform is faced with bottlenecks and challenges which requires urgent attention**

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During his recent speech at the PPP Promotion and Showcase Project Guidance Meeting of the

National Fiscal System, Vice Finance Minister Shi Yaobin pointed out that there were still challenges to be addressed in PPP reforms, including mindset change and imbalanced development. First, some local authorities still need to change their mindset. Correct theoretical understanding is the foundation for pushing ahead reforms, without which low efficiency or mistakes may occur. Typical mistakes would be over-emphasis on investment and GDP growth, over expansion of PPP model, using PPP only as a financing tool, and setting high thresholds of guarantee funds, registration capital, or bank deposits. Second, the reform progress is uneven. The development of various industries is unbalanced, leading to varied degree of enthusiasm among relevant authorities and diversified challenges. Furthermore, regional development is uneven. Judging from the project pool, central and western regions are making rapid headway. As of the end of October this year, the top five provinces, excluding Shandong, are all central and western provinces. Third, participation of private capital is not enough. As a matter of fact, private capital is not so enthusiastic about participating in PPP. Some local governments have not ensured protection for private capital, while private capital has yet to enhance their own capacity. Fourth, some project procedures are not standardized. At present, some irregularities of project implementation require close attention, including PPP disguised financing, deliberate circumvention of management requirements, over-emphasis on quantity and under-emphasis on quality, shaky project preparation and so on.

Fifth, legal protection and policy framework need to be improved. At present, the basic institutional framework of PPP has been established, but legal framework needs to be enhanced. There are many issues to be address, such as legal protection and supporting policy measures.

#### **4. Zhu Guangyao: cooperation between China and the U.S. will make positive contribution to the world, whereas trade war between them will lead to lose-lose situation**

In his recently published speech, Vice Finance Minister Zhu Guangyao said that cooperation between China and the U.S. will make positive contribution to the world, whereas trade war between them will lead to lose-lose situation. The combined size of Chinese and the U.S. economy accounts for nearly 40% of the world economy, and their combined trade is around 23.5% of the world trade. Given the impact of China and the U.S. in the world, their bilateral cooperation will generate positive spillovers and foster a positive momentum. China-U.S. cooperation also matters a lot for global governance, in particular, both countries maintain close policy coordination on G20, the most important platform for global economic governance. The good cooperative relationship between China and the U.S. is based on the principle of non-conflict, non-confrontation, mutual respect and win-win cooperation. Nevertheless,

on issues related to China's core interests, such as territorial integrity, sovereignty and political system security, there is absolutely no room for negotiation. Tension and frictions are unavoidable in the course of the development of China-U.S. cooperation. In addressing the problems and tension, it is crucial that both sides must abandon the zero-sum mentality and avoid lose-lose results in the event of trade war. A report by the Peterson Institute for International Economics suggested that Trump's trade protectionism measures against Mexico and China will have significantly negative impact on the U.S. If an asymmetrical trade war broke out between China and the U.S., China would take some counter measures, including banning the Chinese state-owned enterprises from purchasing the services offered by U.S. companies, which would cost 85,000 jobs in the U.S. In addition, the ban on the import of American soy beans would cost 10% jobs in 21 farming counties in the U.S.. Vice Minister Zhu also hoped that more Americans will visit China and more Chinese go to the U.S., and the cultural exchanges between the two countries will help boost their economic relationship.

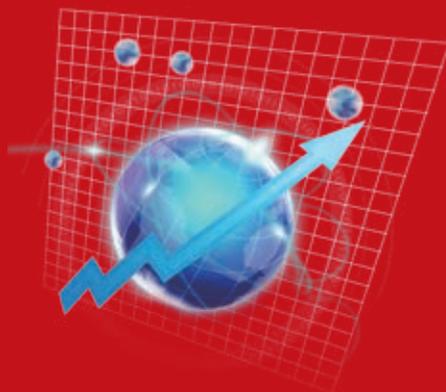
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