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HIGHLIGHTS

- Finance Minister Xiao Jie: G20 is the premier forum for international economic cooperation
- Finance Minister Xiao Jie and PBoC Governor Zhou Xiaochuan attended the G20 Finance Ministers and Central Bank Governors Meeting in Baden-Baden, Germany
- The State Council published the guidelines on the division of labor among government departments for the implementation of the priority work of the *Government Work Report*
- MOF and MOA published the key pro-agriculture policies for 2017
- Implementation of China's central and local governments budget in 2016

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 the *Measures for Managing the Funds for National Key R&D Programs*

On March 3, the Ministry of Finance (MOF) published the *Measures for Managing the Funds for National Key R&D Programs*, which provided the following. First, the funds are focused on special R&D tasks and mainly support the public science and technology activities for which the market mechanisms are unable to effectively allocate resources. Second, government departments will no longer directly manage specific projects and will entrust specialized agencies to manage the funds for the special key projects. Third, the management and use of the funds shall reflect the features of project implementation, follow the rules of science research activities, and comply with the laws. Fourth, MOF will approve the budget for the special key projects in accordance with the fund management system; the specialized agencies are responsible for the management and oversight of the special key funds; and the project-implementing agencies will manage, use and supervise the project funds on a day-to-day basis.

2. MOF published a circular on matters related to the registration, oversight and inspection of the property rights of the state-owned assets of financial enterprises in 2016

On March 8, MOF published a circular on matters related to the registration, oversight and inspection of the property rights of the state-owned assets of financial enterprises in 2016, which provided the following. First, all finance departments (bureaus) shall submit to the Finance Department of MOF the annual statement on registered property rights of the state-owned assets of financial enterprises in 2016 as well as the analysis report before May 31, 2017. Second, the centrally administered financial enterprises shall review and check the change of property rights and registration status in their group or their subsidiaries in 2016. Third, the centrally administered financial enterprises shall file the data of the registered property rights of the previous year on the basis of the data provided by the Finance Department of MOF. Fourth, the centrally administered financial enterprises shall follow the rules of property rights registration and check the accuracy of the electronic data and the completeness and compliance of the paper documents presented by their subsidiaries.

3. MOF published a circular on further improving the implementation

of the policies for the management of funds for science research projects funded by the central government

On March 10, MOF published a circular on further improving the implementation of the policies for the management of funds for science research projects funded by the central government, which provided the following. First, the project-implementing agencies shall move faster in drafting and improving the internal rules for the project budgeting and the use of indirect expenses. Second, improve internal information disclosure system, and clarify the responsible entity, procedures, format, scope and term for the disclosure of internal information. Third, establish and improve the rules for the management of service remunerations and further refine the rules for the management of visiting scholars and recruited project researchers. Fourth, the surplus funds shall accrue to the project-implementing agencies for their direct spending on their own science research activities. Fifth, the projects that have entered the stage of closure and acceptance at the time of the release of the *Several Opinions on further Improving the Policies for the Management of Funds for Science Research Projects Funded by the Central Government* shall continue to follow the previous policies. Sixth, project supervisory agencies shall formulate specific rules for financial acceptance, and clarify the responsible entity, content and standard procedures for the financial acceptance of science research projects.

4. MOF published the *Interim Measures for the Supervision and Administration of State-owned Assets in Central Cultural Enterprises*

On March 15, MOF published the *Interim Measures for the Supervision and Administration of State-owned Assets in Central Cultural Enterprises*, which provided the following. First, establish a working mechanism for the supervision and administration of state-owned assets in central cultural enterprises by combining party oversight with government oversight, enabling the Publicity Department of CPC to play a major role, and allowing MOF to carry out its responsibilities as the shareholder on behalf of the State Council. Second, the agencies that supervise state-owned assets in central cultural enterprises shall accelerate the reform of central cultural enterprises and separate government function from business operation. Third, central cultural enterprises shall consciously accept the administration and supervision exercised by state-owned asset supervisory agencies in accordance with laws and regulations and be subject to the oversight of the general public.

5. MOF published a circular on abolishing and adjusting several policies concerning government-managed fund

On March 17, MOF published a circular on abolishing and adjusting several policies concerning government-managed fund, which provided the following. First, abolish the urban public utility surcharge and the special fund for new-type wall materials. Second, expand the scope of waiver for disability employment guarantee fund and set a ceiling for such fund. Third, during the 13th Five-Year Plan period, governments of provinces, autonomous regions and municipalities may decide for themselves to abolish, suspend or reduce the local water conservancy construction fund and local reservoir resettlement fund. Fourth, all levels of finance authorities shall provide adequate funding and properly arrange the budget of relevant departments and agencies to ensure they carry out their duties in accordance with laws and support the development of relevant issues. Fifth, all regions, departments and agencies shall enhance the publicity and improve the explanation of policies, make timely publication of information, and guide public opinions. Sixth, all regions, departments and agencies shall strictly enforce the regulations concerning the administration of government-managed fund.

6. MOF published a supplementary circular on the demonstration work of fiscal policies for energy conservation and emission reduction

On March 20, MOF published a supplementary

circular on the demonstration work of fiscal policies for energy conservation and emission reduction, which provided the following. First, if a demonstration city is found to have failed the overall targets of energy conservation and emission reduction, the city will be disqualified as a demonstration city and all the reward funds will be deducted. Second, the government of demonstration city will be responsible for the demonstration work and oversee the distribution and use of funds disbursed by central finance authorities. Local governments, relevant departments and staff found to have violated relevant regulations and policies will be held accountable, and be brought to justice.

7. MOF published a circular on the national top CFO executive development program (reserve talents) for enterprises

On March 22, MOF published a circular on the national top CFO executive development program (reserve talents) for enterprises, which provided the following. First, the selection of candidates is organized by MOF, and the procedures shall include application, written test, interview and finalization. Second, the program starts from September 2018 and lasts 6 years, consisting of concentrated training and follow-up management. Third, the program combines concentrated training with on-the-job

learning, and class teaching with applied research. Fourth, the Shanghai National Accounting Institute will be responsible for the day-to-day management of trainees and establish files of the trainees to document their records of learning and research during the period of the program. Fifth, two performance evaluations will be conducted to regularly eliminate the underperforming trainees. Sixth, the program is funded by central government budget and subject to the departmental budget of MOF.

8. MOF published a circular on the policy of overhauling and regulating a batch of administrative charges

On March 23, MOF published a circular on the policy of overhauling and regulating a batch of administrative charges, which provided the following. First, starting from April 1, 2017, 41 central-level administrative charges will be canceled or suspended, and the charge for trademark registration will be cut by 50%. Second, relevant departments and agencies shall dispose of the notes and invoices for the canceled charges at the finance authorities. Third, after the administrative charges are canceled, suspended or cut, the funding required for relevant departments and agencies to discharge their duties will be funded by the finance authorities of corresponding level. Fourth, the finance authorities of provinces, autonomous regions

and municipalities shall work with relevant departments to overhaul the local policies concerning administrative charges. Fifth, the cancel, suspense or cut of administrative charges shall be carried out without any delay.

9. MOF and MOA published the key pro-agriculture policies for 2017

On March 24, MOF and the Ministry of Agriculture (MOA) published the key pro-agriculture policies for 2017, which provided the following. First, provide farmers with subsidies for preserving soil fertility, purchasing agricultural machinery, and growing maize. Second, support the development of new agri-businesses by encouraging the development of professional farmers, farmers' cooperatives, family farms and agricultural credit guarantee system. Third, conduct the trial program of crop rotation and fallow and the trial program of replacing food crops with fodder crops, and develop demonstration bases for high-yield and high-quality alfalfa. Fourth, promote the province-wide integrated development of rural industries by developing modern industrial parks in rural areas and introducing information technology to rural households. Fifth, develop a green, effective and efficient system for adopting agricultural technology, carry out sub-soiling of land by using agricultural machinery, and register and certify the land rights.

10. MOF published the *Measures for the Administration of Central Government's Special Funds for Poverty Reduction*

On March 24, MOF published the *Measures for the Administration of Central Government's Special Funds for Poverty Reduction*, which provided the following. First, the funds will mainly go to the western regions, impoverished old revolutionary bases and minority regions, especially the areas where poverty is concentrated. Second, the funds will be allocated by using the factor method. Third, the funds will be used to nurture and strengthen the industries with special features in poor regions and improve the small-scale pro bono facilities for production and living. Fourth, in light of the needs of managing poverty-reduction projects, provinces may arrange for the counties to use the funds for project management and the shortfalls may be funded by the local finance authorities. Fifth, the funds shall not be used for the basic expenditure, transport and telecom expenses, bonuses, allowances and benefits of government-sponsored institutions. Sixth, the authority for the review and approval of the funds is delegated to county-level governments. Seventh, after the approval of the annual fund allocation plan by the State Council, MOF will disburse the budgeted sum of the funds to provincial finance departments and bureaus.

11. MOF published the *Interim Measures*

for the Administration of the Pool of PPP Consultancy Institutions

On March 27, MOF published the *Interim Measures for the Administration of the Pool of PPP Consultancy Institutions*, which provided the following. First, MOF and the PPP Center will be responsible for the establishment, maintenance and management of the pool of institutions. Second, the establishment, maintenance and management of the pool shall be carried out in an open and transparent manner, be performance based, and allow for dynamic adjustment as well as entry into and exit from the pool. Third, the consultancy institutions included in the pool shall timely upload and update relevant information in accordance with the Measures. Fourth, the information of the pool is only for the reference of government when it selects consultancy institutions. Fifth, the PPP Center is responsible for regularly checking the information of the pool. Sixth, the pool is managed on a dynamic basis, and the consultancy institutions included in the pool may submit written application to the PPP Center to exit from the pool. Seventh, the consultancy institutions that exit from the pool shall not re-enter the pool within 2 years after the publication of notice.

12. MOF published the *Interim Measures for the Administration of the Expenditure of Central State-owned*

Capital Operation Budget

On March 29, MOF published the *Interim Measures for the Administration of the Expenditure of Central State-owned Capital Operation Budget*, which provided the following. First, except for the purposes of transfer to the general public budget and the replenishment of national social security fund, the central state-owned capital operation budget is mainly used to fund the expenditure associated with resolving legacy problems of state-owned enterprises (SOEs), relevant reform initiatives, and capital injection into SOEs. Second, MOF will compile and publish a circular on the expenditure of central state-owned capital operation budget in accordance with relevant policies. Third, MOF and relevant ministries, after calculation, will determine the size of annual expenditure of the central state-owned capital operation budget. Fourth, the central government agencies will oversee the compilation of expenditure proposals of investment operation companies and central SOEs supervised (owned) by them. Fifth, the investment operation companies and central SOEs shall compile their expenditure proposals in accordance with relevant requirements, submit them to central government agencies and forward them to MOF. Sixth, the central government agencies shall review the expenditure proposals made by the investment operation companies and central SOEs supervised (owned) by them and prepare the draft budget proposals to be submitted to MOF. Seventh, on the basis of reviewing the draft budget proposals

made by central government agencies, MOF will allocate the budget to them by following the principle of "making ends meet and breaking even".

13. The State Council published the guidelines on the division of labor among government departments for the implementation of the priority work of the Government Work Report

On March 29, the State Council published the guidelines on the division of labor among government departments for the implementation of the priority work of the *Government Work Report*, which provided the following. First, fiscal policies need to be more proactive and effective, and monetary policies need to be more prudent and neutral. Second, address overcapacity solidly and effectively, reduce inventory on a city-by-city basis, reduce leverage in an active and prudent way, take multiple measures to cut costs, concentrate efforts on strengthening the weak links, and deepen the targeted efforts to reduce and eliminate poverty. Third, continue to promote the transformation of government functions, advance the reform of fiscal and tax system, enhance the reform of financial system, deepen the reform of state-owned enterprises and assets, invigorate the non-public economy, strengthen the system for the protection of intellectual

property rights, vigorously push forward the reform of social system, and deepen the reform of ecological protection system. Fourth, promote the steady growth of consumption, actively expand effective investment, optimize regional development, and solidly advance the new type of urbanization. Fifth, upgrade the capacity for scientific innovation to strengthen emerging industries, vigorously transform traditional industries, encourage the public to start businesses and make innovations, and comprehensively improve the quality. Sixth, promote the adjustment of agricultural structure, strengthen the development of modern agriculture, deepen rural reform, and step up the construction of rural public facilities. Seventh, advance the development of "Belt and Road" initiative, promote the steady improvement of foreign trade, optimize the foreign investment environment, and promote the liberalization and facilitation of international trade and investment.

14. MOF published a circular on issuing new certificates for book-keeping agencies and their annual record-filing for 2017

On March 30, MOF published a circular on issuing new certificates for book-keeping agencies and their annual record-

filing for 2017, which provided the following. First, the finance departments (bureaus) of all provinces, autonomous regions, municipalities, and cities with independent planning status are required to print new certificates for book-keeping agencies and grant the new certificates to all agencies in their jurisdiction by the end of June, 2017. Second, all provincial finance authorities shall carefully oversee the annual online record-filing by book-keeping agencies in their jurisdictions. Third, all provincial finance authorities shall work on the publicity of policies and training to urge the regulators that oversee the approval of book-keeping licenses in their jurisdiction to carefully study and strictly implement *the Measures for the Administration of Book-keeping* and other regulatory policies, and assist and guide relevant personnel to skillfully use the "national system for managing book-keeping agencies" to conduct review and approval and carry out day-to-day work so as to ensure the orderly development of local book-keeping agencies.

II. Facts & Figures

1. Implementation of China's central

and local governments budget in 2016

The data released by MOF on March 6 showed that the general public budget revenue of China totaled 15.955208 trillion RMB in 2016, which was 101.5% of the budgeted sum and was up by 4.5% over 2015. The general public budget expenditure totaled 18.784114 trillion RMB, which was 103.9% of the budgeted sum. The difference between the budget revenue and expenditure resulted in a deficit of 2.18 trillion RMB, consistent with the budgeted sum. At the end of 2016, the balance of central treasury debt was 12.006675 trillion RMB, which was kept within the annual budgetary limit of 12.590835 trillion RMB; the balance of central budget stabilization and adjustment fund was 267.806 billion RMB. The revenue of government-managed fund reached 4.661862 trillion RMB, up by 11.9%. The expenditure of national government-managed fund reached 4.685152 trillion RMB, up by 11.7%. The revenue of state-owned capital operation budget was 260.184 billion RMB, up by 2%. The expenditure of state-owned capital operation budget was 217.146 billion RMB, up by 18.2%. The revenue of national social security fund was 4.827253 trillion RMB, which was 102.4% of the budgeted sum and was up by 4.1%. The revenue of insurance premium was 3.506586 trillion RMB, and the revenue of fiscal subsidies was 1.110434 trillion RMB. The expenditure of national social security fund was 4.391894 trillion RMB, which was 100.9% of the budgeted sum and was up by 12.3%. The surplus of national social

security fund was 435.359 billion RMB in 2016, and the cumulative surplus at the end of 2016 was 6.329467 trillion RMB.

2. Draft budget of China's central and local governments in 2017

The data released by MOF on March 6 showed that the general public budget revenue is set at 16.863 trillion RMB in 2017, up by 5%, and amounts to 17.1063 trillion RMB when 243.3 billion RMB of funds transferred to the budget are added. The general public budget expenditure is set at 19.4863 trillion RMB, up by 6.5% over the previous year. The deficit is set at 2.38 trillion RMB, up by 200 billion RMB over 2016. The revenue of national government-managed fund is set at 4.717466 trillion RMB, up by 3.6%. The total revenue of national government-managed fund is expected to reach 5.547316 trillion RMB when 29.85 billion RMB of revenue carried over from the previous year and 800 billion RMB of revenue of local government special bonds are added. The expenditure of national government-managed fund is set at 5.547316 trillion RMB, up by 21.3%. The revenue of the state-owned capital operation budget is set at 233.83 billion RMB, down by 10.1%. The total revenue of the state-owned capital operation budget is set at 246.633 billion RMB when 12.803 billion RMB of revenue of the previous year is carried over. The expenditure of the state-owned capital operation budget is set at 196.133 billion RMB, down by 9.7%. The revenue of national social security fund is set at

5.178672 trillion RMB, up by 7.3%. The revenue of insurance premium is set at 3.690798 trillion RMB, and the revenue of fiscal subsidies is set at 1.259597 trillion RMB. The expenditure of national social security fund is 4.84505 trillion RMB, up by 10.3%. The surplus of national social security fund is set at 333.622 billion RMB in 2017, and the cumulative surplus at the end of 2017 is set at 6.663089 trillion RMB.

3. China's trade deficit was 9.148 billion USD in February

The data released by the General Administration of Customs (GAC) on March 8 showed that China's trade deficit was 9.148 billion USD in February, among which, export value was 120.079 billion USD, down by 34.3% month on month; and import value was 129.227 billion USD, down by 1.7% month on month.

4. China's CPI rose by 0.8% year on year in February

The data released by the National Bureau of Statistics (NBS) on March 9 showed that China's CPI rose by 0.8% year on year in February, among which, the CPI rose by 0.9% in urban areas and 0.6% in rural areas; fell down by 4.3% for food and went up by 2.2% for non-food; dropped by 0.1% for consumer goods and increased by 2.4% for services. In February, CPI edged down by 0.2% month on month, among which, the figure fell by

0.2% in urban areas and 0.1% in rural areas; decreased by 0.6% for food and 0.1% for non-food; went down by 0.1% for consumer goods and 0.3% for services.

5. China's fiscal revenue and expenditure in the first two months of 2017

The data released by MOF on March 15 showed that revenue under China's general public budget was 3.1454 trillion RMB in the first two months of 2017, up by 406.9 billion RMB year on year, or 14.9%. Expenditure under China's general public budget was 2.486 trillion RMB in the first two months of 2017, up by 368.9 billion RMB year on year, or 17.4%. Revenue under China's government-managed fund budget was 736.4 billion RMB in the first two months of 2017, up by 166.6 billion RMB year on year, or 29.2%. Expenditure under China's government-managed fund budget was 429.8 billion RMB in the first two months of 2017, up by 82.2 billion RMB year on year, or 23.6%.

6. The implementation of subsidy policy for the purchase of agricultural machinery in 2016

The data released by MOF on March 16 showed that China used 22.8 billion RMB of central fiscal funds in 2016 to: support 2.46 million rural households to purchase 2.83 million units (sets) of agricultural machinery; to support the sub-soiling

of 158 million mu (10.53 million hectare) of land; to increase the number of and improve the mix of agricultural machinery and equipment; and to raise the application of sowing, cultivating and harvest machines by 2 percentage points to over 65%.

7. The value added of industrial enterprises above designated size went up by 6.3% year on year in the first two months of 2017

The data published by NBS on March 14 showed that the value added of industrial enterprises above designated size went up by 6.3% year on year in the first two months of 2017, and rose by 0.6% month on month in February. Specifically, the value added decreased by 3.6% in the mining sector, increased by 6.9% in the manufacturing sector, and surged by 8.4% in the power, thermal, gas and water sector. In addition, the value added increased by 5.4% year on year in state-controlled enterprises, decreased by 0.1% in collectively owned enterprises, rose by 6.2% in joint-stock enterprises, and surged by 6.8% in foreign-invested and Hong Kong, Macau and Taiwan enterprises.

8. China's fixed asset investment increased by 8.9% in the first two months of 2017

The data published by NBS on March 14 showed that China's fixed asset investment reached 4.1378 trillion RMB in the first two months of 2017, up by 8.9% year on year, an increase of 0.8 percentage point in growth rate compared with the previous year. The fixed asset investment rose by 0.77% month on month in February, among which, the primary industry investment was 88.6 billion RMB, up by 19.1% year on year, a decrease of 2 percentage points of growth rate over the previous year; secondary industry investment was 1.4496 trillion RMB, up by 2.9%, a drop of 0.6 percentage point of growth rate; and the tertiary industry investment was 2.5996 trillion RMB, up by 12.2%, an increase of 1.3 percentage points of growth rate.

9. China's retail sales of consumer goods in the first two months of 2017 went up by 9.5%

The data published by NBS on March 14 showed that retail sales of consumer goods in the first two months of 2017 totaled 5.796 trillion RMB, up by 9.5% in nominal terms, or by 8.1% in real terms after adjusting for the price factor. In nominal terms, retail sales by major suppliers of consumer goods were 2.468 trillion RMB, up by 6.8%. In the first two months, catering revenues amounted to 625.1 billion RMB, up by 10.6% year on year, and total retail sales of goods reached 5.1708 trillion RMB, up by 9.4%.

10. China's use of loans from international financial institutions as of December 31, 2016

The data released by MOF on March 23 showed that as of December 31, 2016, the cumulative loan commitment made by the World Bank, Asian Development Bank, International Fund for Agricultural Development, European Investment Bank, Nordic Investment Bank and other international financial institutions amounted to 97.446 billion USD. 75.093 billion USD was already disbursed, among which, 41.441 billion USD of principal was repaid, and 33.652 billion USD was still outstanding. The loans were used to support 1023 projects in China in the areas of transport, energy, urban development, environmental protection, agriculture, education, health, industry and etc.

11. China's 2017 budget for central-level general public budgetary revenue

The data released by MOF on March 28 showed that the budgeted sum for the central-level general public budgetary revenue is 7.8612 trillion RMB, up by 3.8% over the implemented sum of the previous year. The budgeted sum for the domestic VAT is 2.685 trillion RMB, an increase of 78.264 billion RMB over the implemented sum of the 2016, or up by 3%; the

budgeted sum for the domestic consumption tax is 1.027 trillion RMB, an increase of 5.277 billion RMB over the implemented sum of the 2016, or up by 0.5%; the budgeted sum for the VAT, consumption tax and tariffs on imported goods is 1.588 trillion RMB, an increase of 49.6 billion RMB over the implemented sum of the 2016, or up by 3.2%; the budgeted sum for the rebates of VAT and consumption tax on exported goods is 1.3 trillion RMB, an increase of 84.552 billion RMB over the implemented sum of the 2016, or up by 7%; the budgeted sum for the corporate income tax is 1.9565 trillion RMB, an increase of 84.929 billion RMB over the implemented sum of the 2016, or up by 4.5%; and the budgeted sum for the personal income tax is 646 billion RMB, an increase of 40.607 billion RMB over the implemented sum of the 2016, or up by 6.7%.

12. The performance of Chinese SOEs from January to February

The data published by MOF on March 28 showed that the operating revenues of SOEs totaled 7.23598 trillion RMB from January to February, up by 17.8% year on year. The operating costs of SOEs totaled 7.04543 trillion RMB, up by 17% year on year. The profits of SOEs totaled 301.86 billion RMB, up by 40.3% year on year. The payable taxes of SOEs totaled 747.66 billion RMB, up by 5.9% year on year. As of the end of February, the assets

of SOEs totaled 135.94818 trillion RMB, up by 11.3% year on year; the liabilities totaled 89.56447 trillion RMB, up by 11.6% year on year; and the owners' equities totaled 46.38371 trillion RMB, up by 10.6% year on year.

13. China's lottery sales in February

The data released by MOF on March 30 showed that nationwide lottery sales in February totaled 28.154 billion RMB, up by 5.7 billion RMB year on year, or 25.4%, among which, welfare lottery sales were 15.296 billion RMB, up by 2.956 billion RMB year on year, or 23.9%; and sports lottery sales were 12.858 billion RMB, up by 2.745 billion RMB, or 27.1%. Cumulative nationwide lottery sales from January to February totaled 57.315 billion RMB, up by 2.219 billion RMB year on year, or 4.0%, among which, welfare lottery sales were 31.508 billion RMB, up by 1.04 billion RMB, or 3.4%; and sports lottery sales were 25.807 billion RMB, up by 1.179 billion RMB, or 4.8%.

14. China's manufacturing PMI in March was 51.8%

The data published by NBS on March 31 showed that China's manufacturing PMI in March was 51.8%, up by 0.2 percentage point month on month. In a breakdown

of enterprises, PMI was 53.3% for large-sized ones, staying flat month on month; 50.4% for medium-sized ones, down by 0.1 percentage point month on month; and 48.6% for small-sized ones, up by 2.2 percentage points month on month. In specific terms, the production index was 54.2%, up by 0.5 percentage point month on month; the new order index was 53.3%, up by 0.3 percentage point month on month; the employee index was 50.0%, up by 0.3 percentage point month on month; the raw material inventory index was 48.3%, down by 0.3 percentage point month on month; and the supplier delivery time index was 50.3%, down by 0.2 percentage point month on month.

III . MOF Events

1. On March 1, Vice Finance Minister Shi Yaobin met with Diwakar Gupta, Vice President of the ADB, and exchanged views on China-ADB cooperation.
2. On March 3, Vice Finance Minister Shi Yaobin met with Umurzakov, Director of the CAREC Institute.
3. On March 7, the press center of the 5th Session of the 12th National People's Congress held a press conference at the multi-function room of the Media Center. Finance Minister Xiao Jie and Assistant Finance Minister Dai Bohua took questions from the domestic and foreign journalists on the issue of "fiscal work and fiscal & tax reform".

4. On March 12, the 3rd Plenary Meeting of the 5th Session of the 12th National People's Congress was held in the Great Hall of the People in Beijing. Finance Minister Xiao Jie was interviewed at "ministers' passage".

5. On March 14, Vice Finance Minister Zhu Guangyao met with the Board of Directors of Asia Securities Industry and Financial Markets Association (ASIFMA) and exchanged views on issues of common interests.

6. On March 15, Finance Minister Xiao Jie met with Henry Paulson, former U.S. Treasury Secretary and Chairman of Paulson Institute, and exchanged views on the economic situation of China and the U.S.

7. On March 10, Yang Shaolin, Managing Director and Chief Administrative Officer of the World Bank, was invited to give a lecture on the challenges faced by the World Bank in reducing global poverty at the International Economics and Finance Institute.

8. On March 17, Finance Minister Xiao Jie attended the G20 High-level Seminar on "Global Economic Governance in a Multi-polar World" hosted by the Ministry of Finance of Germany on the margins of the G20 Finance Ministers and Central Bank Governors Meeting in Baden-Baden, Germany.

9. On March 17, Finance Minister Xiao Jie and PBoC Governor Zhou Xiaochuan co-chaired the first BRICS

Finance Ministers and Central Bank Governors Meeting in 2017 in Baden-Baden, Germany. The finance ministers and central bank governors of other BRICS countries as well as the New Development Bank (NDB) President attended the meeting.

10. On March 17 and 18, Finance Minister Xiao Jie and PBoC Governor Zhou Xiaochuan attended the G20 Finance Ministers and Central Bank Governors Meeting in Baden-Baden, Germany.

11. On March 17 and 18, on the margins of the G20 Finance Ministers and Central Bank Governors Meeting in Baden-Baden, Germany, Finance Minister Xiao Jie had bilateral meetings with the finance ministers of U.S., Germany, France, Russia, Japan, Canada, Mexico and Argentina, and exchanged views over bilateral and multilateral financial issues of common interests.

12. On March 17 and 18, on the margins of the BRICS Finance Ministers and Central Bank Governors Meeting in Baden-Baden, Germany, Vice Finance Minister Shi Yaobin had bilateral meetings with Indrawati, Finance Minister of Indonesia, Marcello, Secretary for International Affairs of the Finance Ministry of Brazil, and Das, Secretary of Economic Affairs of the Finance Ministry of India, and exchanged views over issues of common interests.

13. On March 20, Finance Minister Xiao Jie met with ADB President Nakao and exchanged views over the state of China's economy and China-ADB

cooperation.

14. On March 21, Finance Minister Xiao Jie met with Stuart Gulliver, Chief Executive of HSBC.

15. On March 22, Finance Minister Xiao Jie met with Larry Summers, former Treasury Secretary of the U.S., and exchanged views over issues of common interests.

16. On March 23, Assistant Finance Minister Zhao Mingji attended the 2017 Working Conference on National Accounting Institutes held at the Shanghai National Accounting Institute.

17. On March 23, Assistant Finance Minister Dai Bohua met with Dave Ramsden, Chief Economic Adviser to HM Treasury, and exchanged views over the macroeconomic situation and fiscal policies of China and the UK and other issues of common interests.

18. On March 24, Vice Finance Minister Liu Wei attended the Boao Forum for Asia Annual Conference 2017 and spoke at the panel discussion of *Fiscal Policy Space*.

IV. Local Finance

1. Guaranteed loan for business startup in Jilin Province brought benefits to the people

According to the news released by the Finance Department of Jilin Province on March 6, it has worked in conjunction with the Changchun Branch of PBoC and the Human Resource and Social Security Department of Jilin Province, to introduce the *Measures for Managing Guaranteed Loans for Business Startup*. First, the ceiling of guaranteed loans for individuals who start up business is raised from 100,000 RMB to 200,000 RMB; and the ceiling of loans for an enterprise is 4 million RMB. Second, the recipients of the loans include the registered unemployed people in urban areas, people with difficulty finding jobs, veterans, etc. Third, the individuals who start up business in nationally key counties for poverty reduction will enjoy fully government-subsidized interest. Fourth, 1% of the outstanding guaranteed loans for business startup will be used in each year to subsidize the guarantee agencies for their disbursement of guarantees. Fifth, a reward mechanism for the guaranteed loans for business startup is created.

2. Qinghai Province implemented performance targets throughout the budget process

According to the news released by the Finance

Department of Qinghai Province on March 8, the finance authorities of Qinghai have approved, along with the departmental budget, the performance targets for budget expenditure of provincial government departments and ensured thorough coverage of the performance targets. First, continue to increase the scope of performance target management and extend it to all the departmental budgetary funds. Second, further regulate the reporting of performance targets for project expenditure, and require the setting of detailed and descriptive output indicator, efficiency indicator and satisfaction indicator for project expenditure. Third, make the targets more binding, and not allow to adjust the targets once they are approved. In case of need for adjustment, the due procedures shall be followed in accordance with the requirements for target management and budget and project adjustment.

3. Finance authorities of Hunan Province has developed innovative mechanisms to promote the transformation and upgrading of budget performance management

According to the news released by the Finance Department of Hunan Province on March 13, finance authorities of Hunan has developed innovative mechanisms to promote the transformation and upgrading of budget performance management

in 2016. First, it, for the first time, subjected all departments and budgetary funds to performance targets. Second, it conducted self-assessment of the performance of provincial fiscal funds; promoted the third-party performance evaluation; selected some special funds for evaluation; and pioneered with the performance evaluation system for fiscal management in cities and counties. Third, integrated budget performance management with government performance evaluation, and further improved the performance evaluation indicators for provincial departments and governments at city and prefecture levels. Fourth, applied the results of performance evaluation to budgetary arrangement.

4. Finance authorities of Zhejiang Province promoted the integrated development of rural industries and explored the creation of a modern agricultural industry system

According to the news released by the Finance Department of Zhejiang Province on March 16, it has taken strong measures to enhance the quality and efficiency of agriculture, create employment and increase income for farmers, and to promote rural prosperity and stability. First, support new types of agri-businesses and foster the development of rural industries as new drivers of growth. Second, support the formation of industrial chain in the agricultural sector, develop the required technology, facilities

and equipment, and gradually establish an effective mechanism for agricultural industry's integration with secondary and tertiary industries through project subsidies, subsidized loans and the funds establishment. Third, develop the clustering of agricultural industries and agricultural towns of local special features, and support and encourage the operators of farming, forestry, herding and fishery industries to develop emerging industries such as facility-based agriculture and "internet + agriculture". Fourth, develop the pilot program for the integration of primary, secondary and tertiary industries in rural area, launch the pilot program of agricultural technology for creating an innovative province, and explore a new model for the integrated development of industries in rural area.

expenditure performance targets, and gathered experts to review those targets. Third, it further combined the assessment of finance authorities with the self-assessment of provincial departments, and integrated the performance evaluation report with performance report, so as to raise the efficiency of performance evaluation. Fourth, 20 days after the conclusion of performance evaluation, it provided feedbacks on the project performance, problems identified and relevant recommendations to the assessed departments and agencies. Fifth, it reviewed the performance of departments in using the funds allocated to them on competition basis and disbursed the incentive funds in light of the review results. Sixth, it improved the supervisory mechanism and supporting system for budget performance management and review.

5. The Finance Department of Hubei Province improved the quality and efficiency of budget performance management

According to the news released by the Finance Department of Hubei Province on March 21, it has focused on improving the quality and efficiency of budget performance management in 2016. First, it published documents to prescribe the responsibility of itself and other provincial departments in applying and using the results of performance evaluation. Second, it, for the first time, required all provincial departments to submit the overall

6. The Finance Department of Ningxia Hui Autonomous Region took multiple steps to improve the handling of suggestions and proposals

According to the news released by the Finance Department of Ningxia Hui Autonomous Region on March 23, it has taken multiple steps to improve the handling of suggestions and proposals in recent years. First, enhanced the accountability for handling the proposals by designating senior officials to ensure efforts are concentrated in handing the proposals and proper oversight

is exercised. Second, focused more efforts on improving the implementation of proposals and raise the transparency and effectiveness of handling the proposals. Third, tackled practical issues while handling the proposals in order to promote the progress of fiscal work and social and economic development.

7. Shandong Province achieved positive effects in making good use of the stock of fiscal funds and promoting proactive fiscal policies

According to the news released by the Finance Department of Shandong Province on March 27, Shandong has achieved positive effects in making good use of the stock of fiscal funds and promoting proactive fiscal policies. First, it actively cut the surplus and carryover funds in order to raise the effectiveness of fiscal spending. Second, it linked the performance evaluation results regarding the pace of budget expenditure to provincial transfer payment, linked the status regarding the use of idle fiscal funds to the rewards for county government funding, linked the use of funds raised from government bonds to the allocation of provincial bond quota, and linked the performance evaluation results regarding the treasury cash to the transfer of provincial treasury cash. Third, it improved the regular clearing system, the regulatory system for bank accounts of government departments, the risk source management system, and the long-term mechanism for making good use of the stock of fiscal funds.

8. The Finance authorities of Henan Province took strong measures to encourage migrant workers to return home and start business

According to the news released by the Finance Department of Henan Province on March 29, it has innovated supportive policies to encourage migrant workers to return home and start business. First, it provided 200 to 1500 RMB of subsidies for the migrant workers who take training so as to start business near their home; 1000 to 2000 RMB of subsidies for the startup service providers that offer e-commerce and internet training to migrant workers; 2000 RMB of subsidies for the entities that help develop and nurture startups; and 5000 RMB of subsidies for the qualified migrant workers who return home to start business. Second, it integrated employment subsidies and other special funds and mobilized private capital to create an investment fund that aims at supporting migrant workers to return home and start business. The size of the fund is expected to be 10 billion RMB by 2018. Third, it also offered subsidies for the qualified new-type agribusinesses that are set up by the migrant workers, and established a fund with private sector participation to promote the development of modern services sector. Fourth, to promote startups by migrant workers, it provided 2 million RMB of subsidies and rewards for the provincial demo counties, 3 million RMB of subsidies and rewards for the provincial demo training bases, and 5 million RMB of subsidies and rewards

for provincial demo business parks.

V. Remarks and Opinions

1. Xiao Jie: the reform of personal income tax shall proceed based on China's reality

According to the remarks made by Finance Minister Xiao Jie on personal income tax reform at the press conference held at the press center of the 5th Session of the 12th National People's Congress, the reform of personal income tax bears on tens of thousands of households and relates to the interests of every tax payer. MOF and relevant parties attach great importance to this reform. The plan for the reform of personal income tax is currently under design and deliberation. The overall approach is to proceed based on China's reality, levy the tax on both comprehensive and classified basis, design and implement the reform plan in a step-by-step manner, and gradually establish a personal income tax system that suits China's national conditions. Some incomes, such as wages, remunerations for personal services and royalties, will be taxed together on an annual basis. In addition, more household spending items will be deductible, and deduction for other spending items may also be considered in order to further ease the burden of tax payers. In the process of drafting the reform

plan, the level of household consumption and other factors will be taken into account to decide whether the deduction threshold needs to be raised. Other income items, including income from property transfer, may continue to be taxed separately. The international experiences suggest that implementing a personal income tax system on both comprehensive and classified basis and increasing the pre-tax deductible items require relatively mature social supporting conditions. For instance, the tax authorities should be able to access the information related to the income of tax payers in order to ensure the smooth implementation of the new personal income tax system. Moreover, after the reform plan of personal income tax is finalized, the tax law shall be revised accordingly and be submitted to the Standing Committee of the National People's Congress for review, as required by the principle of law-based taxation.

2. Zhu Guangyao: three external challenges facing China's economic development in 2017

In his remarks at the 5th Session of the 12th National Committee of the Chinese People's Political Consultative Conference, Vice Finance Minister Zhu Guangyao said that Chinese economy is faced with three external challenges in 2017: the economic policy of the new President of the U.S. and its impact on American and global economy; the

trend of Fed's monetary policy; and the rise of trade protectionism and its impact on global trade system and global trade development. Four aspects of Trump's economic policy warrant special attention. First, the impact of Trump's policy on global trade landscape, including the withdrawal from the TPP, the renegotiation of NAFTA, and the claim in the *Annual Trade Policy Agenda 2017* released by USTR on March 1 that American trade will give first priority to protect its own interests and will not be bound by WTO rules. Second, slash corporate tax and implement border tax. Third, slash regulatory rules of financial sector. Fourth, reduce corporate regulation by as much as 75%. These policies may directly affect the capital flow and state competitiveness. Fed may raise interest rate for 3-4 times in 2017 and the possibility of interest rate rise at the FOMC on March 15 exceeds 80%. This is a huge challenge for global financial market. Moreover, Italy, France, Germany and some other European countries will have presidential election in 2017. Sounds of protectionism are heard in the election campaign of those countries. The victory of far-right party in the election will have significant impact on those countries' trade policy. Facing these external challenges, China must be well-informed, watch them closely, and effectively safeguard China's interests.

3. Xiao Jie: G20 is the premier forum for international economic cooperation

In his recent remarks at the G20 High-level Seminar on "Global Economic Governance in a Multipolar World", Finance Minister Xiao Jie said that G20 is the premier forum for international economic cooperation. Through the G20 platform, countries have strengthened the coordination of fiscal, economic and structural reform policies, and promoted global economic recovery and growth; advanced the reform of international financial architecture and the improvement of global financial safety net, safeguarded the stability of international financial system, pushed forward financial regulatory reform, and enhanced the soundness of financial sector; and deepened international tax cooperation and achieved fruitful outcomes in tax transparency, exchange of information, and addressing BEPS. Currently, the global economy is faced with a new landscape and new challenges. The weak growth momentum, lagging economic governance, and uneven development have emerged as the salient problems in the world economy. None of countries can cope with these global challenges alone, and international cooperation is the inevitable choice for each country if it is to address the challenges and realize development. G20's role as the premier forum for international economic cooperation should be strengthened rather than be weakened. China has always been the staunch supporter of G20. The successful Hangzhou Summit achieved important outcomes in building an innovative, invigorated, interconnected and inclusive world economy,

giving a boost to G20's transition from a crisis response mechanism to a long-term governance mechanism. In face of new challenges, it is all the more important to give full play to the role of G20 and further deepen cooperation. First, continue to enhance the coordination of macroeconomic policies, make and implement responsible macroeconomic policies, jointly promote global economic growth, and resist trade protectionism. Second, continue to improve global economic governance, safeguard the efficacy of multilateral mechanisms, improve international finance, trade, investment, tax and climate finance systems, and make the global economic governance more equitable, inclusive and efficient. Third, constantly improve the G20 mechanism, enhance the effectiveness of policy coordination, listen to the opinions of non-G20 countries, especially developing countries, increase the inclusiveness of G20 mechanism, and promote G20's transition from a crisis response mechanism towards a long-term governance mechanism.

4. Liu Wei: government must stay vigilant against the risks of mismanaged PPP projects turning into government debts

In his remarks at the panel discussion of "Fiscal Policy Space" under the Boao Forum for Asia Annual Conference 2017, Vice Finance Minister Liu Wei said that government must stay vigilant against

the risks of mismanaged PPP projects turning into government debts. Chinese government only took 3 years to put in place a complete policy framework, institutional system and implementation approach for PPP projects. Currently, there are 11,000 projects in the pipeline with a total investment of 13.5 trillion RMB, of which 1,350 projects have been implemented and 2.2 trillion RMB of investment are in place. The rapid development of PPP projects in China is due to the fact that the Chinese government uses PPP to advance structural reforms rather than to make short-term financing and has promoted three reform initiatives. First, administrative reform of government. Government will reduce its role in project approval, and allow projects to be market-selected. Second, reform of fiscal system. PPP shall be determined by market rather than be initiated by market entities as in the traditional sense. Third, reform of investment and financing. More funds can be leveraged through PPP and the constraints of resources can be mitigated. Nevertheless, the government must stay vigilant against the risks of PPP turning into government debts. If the operation of PPP projects is not going well and contracts cannot be implemented, the PPP projects will surely be added to government's debts when they are handed over to the government. Therefore, it is important to follow market laws and steadily push PPP forward in a law-based way.

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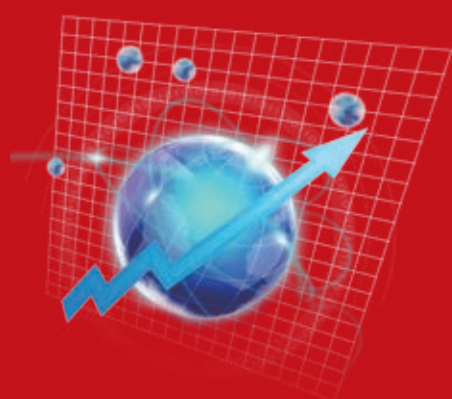
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