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HIGHLIGHTS

- Finance Minister Xiao Jie: the West is making bearish rhetoric when claiming that BRICS is fading
- Finance Minister Xiao Jie attended the Second Annual Meeting of the Board of Governors of the AIIB
- MOF published a circular on further improving budget management for the project expenditure of central government departments
- MOF published the guidelines on deepening PPP in the agricultural sector
- The performance of Chinese SOEs from January to May






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. The State Council published the *Plan for Implementing the Integration and Sharing of Government Information System*

On June 5, the State Council published the *Plan for Implementing the Integration and Sharing of Government Information System*, which provided the following. First, intensify auditing and survey to speed up the elimination of "zombie" information systems. Second, promote the integration and sharing of intra-departmental information system. Third, improve the nationwide unified electronic government information network. Fourth, promote the integrated data sharing and exchange platform. Fifth, accelerate the development of open website for public data. Sixth, promote a coordinated national government information sharing website. Seventh, compile a catalogue of government information and undertake a national survey. Eighth, speed up the development of standards for the sharing of government information. Ninth, regulate the online government service platforms. Tenth, implement the pilot program featuring "internet + government information services".

2. MOF published the guidelines on deepening PPP in the agricultural sector

On June 6, the Ministry of Finance (MOF) published the guidelines on deepening the public-private partnership (PPP) in the agricultural sector, which provided the following. First, promote the development of agricultural PPP project pipeline and specify its access criteria. Second, instruct the project-implementing agencies to fully identify and rationally allocate PPP project risks in accordance with the principle of sharing risks and benefits. Third, instruct the project-implementing agencies to develop a reasonable mechanism for return on investment on the basis of project characteristics. Fourth, select on a merit basis, the private sector partners who possess the required capability for project operation and contract fulfillment, and ensure all market entities can participate in agricultural PPP projects on an equal footing. Fifth, improve the monitoring and ceiling management of the fiscal expenditure responsibilities with respect to the PPP projects in the local jurisdiction and strictly enhance the government debt management. Sixth, improve the work on the whole-life information disclosure of PPP projects. Seventh, develop performance evaluation system and accountability mechanism for agricultural PPP projects. Eighth, explore innovative financial investment mechanism for public services in the agricultural sector. Ninth, mobilize more financial institutions and insurance funds to increase financing support towards agricultural PPP projects.

3. MOF published a circular on expanding the scope of preferential income tax policies for small and low-profit enterprises

On June 7, MOF published a circular on expanding the scope of preferential income tax policies for small and low-profit enterprises, which provided the following. First, from January 1, 2017 to December 31, 2019, the upper limit of annual taxable income for small and low-profit enterprises is raised from 300,000 RMB to 500,000 RMB; for the small and low-profit enterprises with annual taxable income of less than 500,000 RMB (including 500,000 RMB), only 50% of their income is counted as taxable income and is taxed at 20% for corporate income tax. Second, the *Circular of MOF and SAT¹ on the Preferential Income Tax Policies for Small and Low-profit Enterprises* (MOF and SAT, Circular No. 34, 2015) and the *Circular of MOF and SAT on Further Expanding the Scope of Preferential Income Tax Policies for Small and Low-profit Enterprises* (MOF and SAT, Circular No. 99, 2015) were abolished on January 1, 2017.

4. The State Council decided to introduced new measures to cut taxes and fees

On June 7, Premier Li Keqiang chaired an executive meeting of the State Council which provided the following. First, the proportion set aside as quality guarantee funds for engineering projects in the construction sector is reduced from 5% to 3%. Second, the non-tax government surcharge for electricity in the energy sector is cleaned up, the special funds for the structural adjustment of industrial firms is abolished, and the charging standard for the funds of constructing national key water conservancy projects and the funds of large and medium-scale reservoir resettlement is reduced by 25%. Third, the level of six administrative charges, including the telecom numbering fees and pesticide experiment fees, is lowered. Fourth, the regulatory fees for the banking sector and insurance sector are suspended.

5. MOF published a circular on improving agricultural production and development projects supported by central finance authorities in 2017

On June 12, MOF published a circular on improving agricultural production and development projects supported by central finance authorities in 2017, which provided the following. First, advance supply-side structural reforms in the agricultural

1 SAT, the State Administration of Taxation.

sector, further optimize the structure of agricultural products, the composition of industries and the mix of operation, enhance the quality, efficiency and competitiveness of agriculture, and increase the supply of high-quality and green agricultural products. Second, highlight green and ecological agriculture, and accelerate the establishment of an agricultural subsidy system that is green and ecological. Third, enhance the efficiency of funds use, allocate the funds to the priority areas, and further improve the allocation of resources and the composition of spending. Fourth, reform the budgeting of special transfer payment, further innovate and improve the mechanism of funds management and use.

6. MOF published the *Plan for the Implementation of the Pilot Program of Rural Comprehensive Reform*

On June 12, MOF published the *Plan for the Implementation of the Pilot Program of Rural Comprehensive Reform*, which provided the following. First, improve the mechanism for the development of village-level collective economy. Vigorously develop village-level collective economy, improve the governance, operation, oversight and benefit-allocation mechanism for the legal persons of village-level economy, develop village-level economic organizations and cooperatives, and gradually increase the scale of farmers' operation and make rural economic development more organized.

Second, improve rural governance mechanism. Improve the funding for the operation of rural grass-root party organizations, improve the self-governance mechanism of farmers, and enhance the capacity of rural communities for the delivery of public services. Third, establish a mechanism for the continuous income increase of farmers. Enhance the training for new-type professional farmers, improve pro-agriculture policies, strengthen new industries and new business models in the rural area, and actively promote the integration of primary, secondary and tertiary industries in the rural area. Make good use of rural assets and resources, and improve the mechanism for allocating the gains of rural collective assets.

7. MOF published a circular on continuing relevant tax policies to support rural financial development

On June 13, MOF published a circular on continuing relevant tax policies to support rural financial development, which provided the following. First, from January 1, 2017 to December 31, 2019, financial institutions' interest income derived from the micro loans extended to rural households is exempted from VAT. Second, from January 1, 2017 to December 31, 2019, 90% of the financial institutions' interest income derived from micro loans extended to rural households shall be counted as taxable income. Third, from January 1, 2017 to December 31, 2019,

90% of the insurance companies' premiums income derived from the insurance services provided for crop-growing industry and animal-farming industry shall be counted as taxable income. Fourth, financial institutions shall separately account for the income derived from the micro loans extended to the qualified rural households, and the income that cannot be separately accounted for shall not be eligible for the preferential treatment set out in the first and second provisions of this circular. Fifth, the VAT that had been paid before the publication of this circular can be offset against the payable taxes in the coming months or be refunded.

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8. MOF published a circular on advancing the comprehensive reform of water price in the agricultural sector

On June 14, MOF published a circular on advancing the comprehensive reform of water price in the agricultural sector, which provided the following. First, determine the principles and methods of costing and pricing water in the agricultural sector in light of the circumstances in each province. Second, intensify the efforts of constructing and renovating farmland irrigation and drainage facilities, and provide economical measurement facilities at the same time. Third, establish a mechanism featuring precise subsidies and rewards for water saving to offer fiscal subsidies for water price markup and rewards

for water saving. Fourth, impose strict limit on the amount of water consumption, specify the water rights of rural collective unit, farmers' cooperatives and rural households. Properly adjust the crop mix in the water-scarce areas and increase the coverage of drought-resilient crops.

9. The State Council decided to build pilot zones for the innovation and reform of green finance in some provinces (regions)

On June 14, Premier Li Keqiang chaired an executive meeting of the State Council, which provided the following. First, support financial institutions to set up green finance department or green branch, and encourage micro-loan and financial-leasing companies to participate in green finance business. Support venture capital, PE fund and other domestic and foreign capital to take part in green investment. Second, encourage the development of green credit and explore environmental equity pledged financing such as concession, project return right and pollutant-discharge right. Accelerate the development of green insurance and develop innovative insurance products for ecological and environmental liabilities. Encourage green enterprises to issue SME green bonds through bond issuance and public listing. Allow green finance to step up support for green building and infrastructure construction in small and medium-sized cities and small towns with special features. Third, explore the establishment of market for trading

pollutant-discharge right, water right, energy-use right and other equities in the environmental area, create a platform for the sharing of information related to pollutant discharge and violation of environmental laws and regulations by enterprises, and establish a green credit system. Fourth, strengthen policy support in terms of public finance, tax, land and talents, and create a government service channel for green industry and priority projects. Fifth, establish a risk-prevention mechanism for green finance, improve the accountability system, create a compensation mechanism for the investment and financing risks of green projects, and promote the models that facilitate the healthy development of green finance.

10. MOF published a circular on abolishing the special funds for the structural adjustment of industrial enterprises

On June 16, MOF published a circular on abolishing the special funds for the structural adjustment of industrial enterprises, which provided the following. First, abolish the special funds for the structural adjustment of industrial enterprises. Second, the fiscal Inspector's Office affiliated to MOF in all provinces (regions and municipalities) shall complete the stocktaking and cleaning up of the special funds by September 30, 2017. The revenue derived from clearing the arrears of special funds shall accrue to the national treasury in accordance with the MOF

regulations. Third, after the abolition of the special funds, MOF will use the special reward and subsidy fund for the structural adjustment of industrial enterprises to support the resettlement of the workers who are laid off in the process of cutting overcapacity in the steel and coal sectors.

11. MOF published a circular on matters related to market making operation for treasury bonds

On June 19, MOF published a circular on matters related to market making operation for treasury bonds, which provided the following. First, the operation features random purchase of 1.2 billion RMB of year 2017's book-entry and interest-bearing treasury bonds with a maturity of 1 year. Second, the band of bid price fluctuation is 0.01 RMB, and the difference between the highest and the lowest bid price by each participating agency shall not exceed 25 points. Third, the bid-winning agency shall transfer the full amount of usable bonds to its account opened with the Central Treasury Bonds Registration and Settlement Co. Limited by 2 pm on June 20, 2017, and the latter shall transfer those bonds to the agency's account opened with MOF at 2 pm on June 20, 2017.

12. MOF published a circular on lowering the charging standard of the

fund for constructing national key water conservancy projects and the fund for supporting resettlement of major and medium-sized reservoirs

On June 19, MOF published a circular on lowering the charging standard of the fund for constructing nationally key water conservancy projects and the fund for supporting resettlement of major and medium-sized reservoirs, which provided the following. The charging standard of the fund for constructing national key water conservancy projects and the fund for supporting resettlement of major and medium-sized reservoirs is lowered by 25%. After the lowering of charging standard, the collection, administration, revenue sharing and scope of usage of these two government-managed funds are still governed by the existing regulations.

13. MOF published a circular on regulating the asset securitization of PPP projects

On June 19, MOF published a circular on regulating the asset securitization of PPP projects, which provided the following. First, encourage project companies to conduct asset securitization to optimize financing arrangement, explore asset securitization by the shareholders of project companies to revive the stock of assets, and support other entities related to the project company to conduct asset securitization.

Second, the PPP projects to be subject to asset securitization shall function in a well-regulated way and have clearly-defined ownership. The initiator (original equity owner) shall meet relevant requirements. Third, asset securitization shall be conducted in accordance with contract provisions and be applied to PPP projects that are selected and recommended on merit basis, and the review procedures for the asset securitization of PPP projects shall be further optimized. Fourth, ring-fencing of risks shall be arranged, the costs and benefits of asset securitization be reasonably shared, the risks of rigid redemption be prevented, the relevant information of asset securitization be fully disclosed, and a sound environment be vigorously fostered.

14. MOF published the guidelines on improving the pilot program of pastoral complex in 2017

On June 21, MOF published the guidelines on improving the pilot program of pastoral complex in 2017, which provided the following. First, enhance organization and coordination work. Second, clarify the criteria for the pilot program and work on the selection of the complex. Third, highlight the required targets and substantiate the content of the pilot program. Actively develop circular agriculture, vigorously develop smart agriculture, and steadily develop creative agriculture. Fourth, innovate the models of investment and improve the

supporting policies. Innovate the approaches of fiscal investment, actively explore and promote PPP, adopt a combination of subsidies, rewards, guarantee and risk compensation to leverage financial and private capital for the construction of pastoral complex. Fifth, carefully develop plans and improve the organization and implementation work. Sixth, conduct review of the proposed projects and improve the report and evaluation of the plans.

15. MOF published the No.9 Explanation of the Accounting Standards for Business Enterprises—Accounting Treatment of Net Investment Loss under the Equity Method

On June 21, MOF published the *No.9 Explanation of the Accounting Standards for Business Enterprises—Accounting Treatment of Net Investment Loss under the Equity Method*, which provided the following. First, if the investor's current share of the net profit and other comprehensive income of the investee is less than or equal to the unrecognized net investment loss of the previous period, the investor, according to the type of the unrecognized net investment loss, shall make up for the investee's net loss which is unrecognized and due to be shared in the previous period or other net investment loss such as the net reduction of comprehensive income. Second, if the investor's current share of the net profit and other comprehensive income of the investee is greater than

the unrecognized net investment loss, the investor shall make up for the unrecognized net investment loss of the previous period in accordance with the above provision; where the former exceeds the latter, the book value of other long-term equities and the book value of the long-term equity investment shall be restored, and the difference shall be recognized according to the equity method.

16. MOF published the No.10 Explanation of the Accounting Standards for Business Enterprises—the Depreciation Method Based on the Use of Income Generated by Fixed Assets

On June 21, MOF published the *No.10 Explanation of the Accounting Standards for Business Enterprises—the Depreciation Method Based on the Use of Income Generated by Fixed Assets*, which provided the following. First, businesses shall not conduct depreciation on the basis of income generated from economic activities that include the use of fixed assets. Second, if relevant fixed assets recognized before the implementation of this explanation do not follow the accounting treatment as set out in this explanation, the depreciation of previous periods is not to be adjusted and the cumulative effects are not to be calculated either. From the date of implementation, depreciation is to be done according to the reviewed depreciation method in the future.

17. MOF published the No.11 Explanation of the Accounting Standards for Business Enterprises—the Amortization Method Based on the Use of Income Generated by Intangible Assets

On June 21, MOF published the *No.11 Explanation of the Accounting Standards for Business Enterprises—the Amortization Method Based on the Use of Income Generated by Intangible Assets*, which provided the following. First, except for some extreme cases, businesses normally shall not conduct amortization based on income generated by economic activities that include the use of intangible assets. Second, if relevant intangible assets recognized before the implementation of this explanation do not follow the accounting treatment as set out in this explanation, the amortization of previous periods is not to be adjusted and the cumulative effects are not to be calculated either. From the date of implementation, amortization is to be done according to the reviewed amortization method in the future.

18. MOF published the No.12 Explanation of the Accounting Standards for Business Enterprises—Whether the Provider and the Recipient of Key Management Personnel Services are Related Parties

On June 21, MOF published the *No.12 Explanation of the Accounting Standards for Business Enterprises—*

Whether the Provider and the Recipient of Key Management Personnel Services are Related Parties, which provided the following. First, if the service provider provides key management personnel services for the service recipient, the service recipient, when preparing the financial statements, shall carry out relevant disclosure of the service provider as the related party. Second, in preparing the financial statements, the service provider should not identify the service recipient as a related party simply because it is providing key management personnel services for the latter; instead, it shall determine whether both sides constitute related parties by following the No.36 Standard and carry out accounting treatment accordingly. Third, the service recipient may not disclose the remuneration paid or ought to be paid by the service provider for relevant employees of the service provider, but shall disclose the amount that it ought to pay for receiving the services.

19. MOF published a circular on continuing to implement relevant tax policies to support and promote business startup and employment of key groups of people

On June 21, MOF published a circular on continuing to implement relevant tax policies to support and promote business startup and employment of key groups of people, which provided the following. First, the self-employed individuals who hold

certificate of employment and business startup or certificate of registered unemployment may deduct the payable VAT, urban maintenance and construction tax, education surcharge, local education surcharge and personal income tax in three years in accordance with the 8000 RMB limit per household per year. Second, in filling new job openings, if the processing enterprises belonging to trading, services and labor and employment services as well as the small processing entities in communities, recruit those who have been registered unemployed for over half a year at the public employment service agencies affiliated to human resource and social security authorities and hold certificate of employment and business startup or certificate of unemployment, enter into one-year plus employment contract with them, and pay social security contribution for them in accordance with laws, the enterprises are allowed to deduct VAT, urban maintenance and construction tax, education surcharge, local education surcharge and corporate income tax in three years as per the number of actually recruited people.

20. The State Council decided on the measures to accelerate the development of commercial old-age insurance and improve social security system to ensure the elderly are well-cared

On June 21, Premier Li Keqiang chaired an executive

meeting of the State Council, which provided the following. First, support commercial insurance agencies to provide personalized and differentiated old-age insurance plans for individuals and families and actively offer products and services related to corporate and occupational annuity plans. Second, ensure secure and reliable operation of commercial pension funds, maintain their value, and realize reasonable returns. Encourage commercial pension funds to establish and operate elderly care institutions through green field investment, equity investment, and trusteeship, and support the development of liability insurance that meets the requirements of managing the operational risks of elderly care institutions. Third, implement relevant national fiscal and tax policies on supporting the development of insurance and elderly service sector, accelerate the pilot program of tax-deferred pension plan, support commercial pension agencies to participate in the investment and management of basic pension funds, and provide green channel and priority support for the participation of commercial pension funds in national key projects and projects related to people's wellbeing.

21. MOF published a circular on continuing to implement relevant tax policies to support veterans to start businesses and find jobs

On June 23, MOF published a circular on continuing

to implement relevant tax policies to support veterans to start businesses and find jobs, which provided the following. First, the veterans who are self-employed are eligible to deduct up to 8000 RMB per year for three years from their payable VAT, urban maintenance and construction tax, education surcharge, local education surcharge and personal income tax. The deduction standard is allowed to rise by up to 20%. Second, commercial and trading enterprises, service enterprises and other small-sized business entities that recruit veterans, enter into one-year plus employment contract with them and pay social insurance contributions for them are eligible to deduct 4000 RMB per veteran employed per year for three years from their payable VAT, urban maintenance and construction tax, education surcharge, local education surcharge and corporate income tax. The deduction standard is allowed to rise by up to 50%.

22. MOF published a circular on the temporary waiver of banking industry supervisory fees and insurance industry supervisory fees

On June 26, MOF published a circular on the temporary waiver of banking industry supervisory fees and insurance industry supervisory fees, which provided the following. First, banking industry supervisory fees and insurance industry supervisory fees are waived. Second, after the waiver of the

above-mentioned administrative fees, the relevant expenses required for the discharge of duties by China Banking Regulatory Commission (CSRC) and China Insurance Regulatory Commission (CIRC) are still funded by the central government budget. Third, CBRC and CIRC shall, by August 31, 2017, complete the clearing of the arrears of the banking industry supervisory fees and insurance industry supervisory fees of the previous years. The resulting income shall be collected and handed over to the central treasury via the channels stipulated by MOF. Fourth, this circular shall come into force on July 1, 2017 and stay valid until December 31, 2020.

23. MOF published a circular on relevant tax policies of micro-loan companies

On June 27, MOF published a circular on relevant tax policies of micro-loan companies, which provided the following. First, from January 1, 2017 to December 31, 2019, the interest income derived from micro loans to rural households by micro-loan companies authorized by provincial financial regulators (finance offices or bureaus) is exempted from VAT. Second, from January 1, 2017 to December 31, 2019, the interest income derived from micro loans to rural households by micro-loan companies authorized by provincial financial regulators (finance offices or bureaus) is allowed to have 90% of the income calculated as taxable income. Third, from January 1,

2017 to December 31, 2019, the loan loss reserves set aside at 1% of the year-end loan balance by micro-loan companies authorized by provincial financial regulators (finance offices or bureaus) are allowed to be deducted on a pre-tax basis from corporate income tax. Fourth, the VAT that ought to be exempted but was already paid during the period from January 1, 2017 to the date of the publication of this circular can be offset against the payable VAT in the coming months or be refunded.

24. MOF published a circular on implementing the "excellent-quality food" program in circulation

On June 29, MOF published a circular on implementing the "excellent-quality food" program in circulation, which provided the following. First, clarify that the "excellent-quality food" program is mainly about ensuring the quality of grain and oil, improving the inspection and monitoring system on food quality and safety, and establishing a professional post-production service system for food. Second, enhance organization work and specify the implementation plan. Enable relevant central-level food companies and major local state-owned food companies to play a demonstration and leading role. Third, allow localities to push forward relevant work with the support of the state. Relevant provinces shall tap resources to ensure funding for the "excellent-quality food" program, and the central finance

authorities will provide appropriate support by deploying the reward funds for major grain-producing counties. Fourth, strengthen oversight and make the "excellent-quality food" program an important indicator in the performance evaluation of provincial governors.

25. MOF published a circular on further improving budget management for the project expenditure of central government departments

On June 29, MOF published a circular on further improving budget management for the project expenditure of central government departments, which provided the following. First, the departments shall adjust and improve the special level-1 projects in accordance with the designated plan. Second, starting from the 2018 budget, the general level-1 projects of "asset operation maintenance" and "IT operation maintenance" will be added to the budget. The level-2 projects approved in 2017 will continue to be carried out from 2017 to 2018. Third, improve project budget compilation, refine project management approaches, and increase budget resources. Fourth, government departments shall not entrust their affiliated institutions or other departments to carry out their duties or services that ought to be provided by them, unless they do not have the conditions for enforcement of duties or provision of services. Fifth, increase the coverage of

project budget review, establish dynamic evaluation mechanism, and improve the administration of project performance evaluation. Sixth, the results of performance evaluation are linked to the budget arrangement for project expenditure, and the status of budget review is also linked to overall budget arrangement for government departments.

26. The State Council published the guidelines on further deepening the reform of the payment methodology of basic health insurance

On June 29, the State Council published the guidelines on further deepening the reform of the payment methodology of basic health insurance, which provided the following. First, adopt a diversified and differentiated health insurance payment methodology. Advance the reform of health insurance payment in light of the features of different health services. Second, promote insurance payment on the basis of the type of illness. In principle, payment will be made on the basis of the type of illness, especially the illness with relatively clear plans of treatment and diagnosis, clear standards of hospital admission and discharge, as well as relatively mature treatment and diagnosis techniques. Third, conduct the pilot program of payment based on diagnosis-related group (DRG). Fourth, improve the payment methodology based on the number of patients and bed days. Fifth, enhance the oversight

of healthcare behaviors through health insurance. Sixth, strengthen the budget management of health insurance funds. Seventh, improve policy measures for health insurance payment. Eighth, advance the reform related to health system in a coordinated way.

II. Facts & Figures

1. China's payment system was functioning stably in the first quarter

The data released by the People's Bank of China (PBoC) on June 8 showed that China's payment system was functioning stably in the first quarter. On non-cash payment tools, 33.371 billion non-cash payment transactions worth 928.63 trillion RMB were made nationwide, up by 24.53% and 4.54% year on year respectively. On payment system, 17.315 transactions worth 1257.32 trillion RMB were processed by the payment system, up by 34.44% and 6.54% year on year respectively. On RMB settlement account, by the end of the first quarter, 8.527 billion RMB banking settlement accounts were opened nationwide, up by 2.09% month on month, and the growth rate fell by 1.25 percentage points.

2. The total value of China's imports

and exports in May increased by 18.9% year on year

The data released by the General Administration of Customs on June 8 showed that after adjusting for seasonal factors, the total value of China's imports and exports in May increased by 18.9% year on year, among which, exports rose by 16.3% and imports surged by 22.4%. The total value of imports and exports fell by 1.9% month on month, among which, exports dropped by 0.5% and imports went down by 3.6%.

3. Revenue under China's general public budget was up by 3.7% year on year in May

The data released by MOF on June 12 showed that revenue under China's general public budget was 1.6073 trillion RMB in May, up by 3.7% year on year, among which, revenue at the central government level was 795.1 billion RMB, down by 3.6%; revenue at the local government level was 812.2 billion RMB, up by 12%. Expenditure under China's general public budget was 1.6915 trillion RMB in May, up by 9.2% year on year, among which, expenditure at the central government level was 272.4 billion RMB, up by 5.8%; expenditure at the local government level was 1.4191 trillion RMB, up by 9.8%. From January to May, cumulative revenue under China's government-managed

fund budget was 1.8512 trillion RMB, up by 28% year on year, among which, revenue at the central government level was 151.3 billion RMB, up by 10.9%; revenue at the local government level was 1.6999 trillion RMB, up by 29.7%. Cumulative expenditure under China's government-managed fund budget was 1.4391 trillion RMB, up by 21.6% year on year, among which, expenditure at the central government level was 40 billion RMB, up by 8.8%; expenditure at the local government level was 1.3991 trillion RMB, up by 22%.

4. The performance of China's financial market in May

The data released by PBoC on June 20 showed that a total of 2.9 trillion RMB of various types of bonds were issued in China's bond market in May, among them, there were 259.2 billion RMB of treasury bonds, 338.2 billion RMB of financial bonds, 252.6 billion RMB of corporate bonds, 64.5 billion RMB of credit asset-backed securities, and 1.2 trillion RMB of inter-industry negotiable certificates of deposit. A total of 2.7 trillion RMB of various types of bonds were issued on the interbank bond market. Money market turnover totaled 54.5 trillion RMB, down by 14.7% year on year, and up by 9.9% month on month, among them, pledged repo turnover was 46.8 trillion RMB, down by 8.5% year on year and down by 12.3% month on month; buyout repo turnover was 2.1 trillion RMB, down by 25.4% year

on year, and up by 19.0% month on month; inter-industry borrowing was 5.6 trillion RMB, down by 43.6% year on year and down by 8.6% month on month. Inter-bank bond market turnover was 7.6 trillion RMB, and the average daily turnover was 363.92 billion RMB, down by 23.1% year on year and down by 1.2% month on month. Exchange-traded bond market turnover was 478.9 billion RMB and the average daily turnover was 23.94 billion RMB, up by 21.4% year on year and up by 8.9% month on month. The Shanghai Composite Index closed at 3117.18 points, down by 37.48 points from the end of last month, or 1.19%; Shenzhen Composite Index closed at 9864.85 points, down by 369.81 points from the end of last month, or 3.61%.

5. The performance of Chinese SOEs from January to May

The data published by MOF on June 27 showed that the operating incomes of SOEs totaled 19.74733 trillion RMB from January to May, up by 17.4% year on year. The operating costs of SOEs totaled 19.09609 trillion RMB, up by 16.6% year on year. The profits of SOEs totaled 1.03763 trillion RMB, up by 25.5% year on year. The payable taxes of SOEs totaled 1.66881 trillion RMB, up by 9.6% year on year. As of the end of May, the assets of SOEs totaled 139.17921 trillion RMB, up by 11.2% year on year; the liabilities totaled 91.53121 trillion RMB, up by 11.2% year on year; and the owners'

equities totaled 47.648 trillion RMB, up by 11.3% year on year.

6. China's lottery sales in May

The data released by MOF on June 27 showed that nationwide lottery sales in May totaled 37.695 billion RMB, up by 3.075 billion RMB year on year, or 8.9%, among which, welfare lottery sales were 18.227 billion RMB, down by 147 million RMB year on year, or 0.8%; and sports lottery sales were 19.468 billion RMB, up by 3.222 billion RMB, or 19.8%.

III . MOF Events

1. On June 6, Vice Finance Minister Zhu Guangyao met with James Daniel, Director of IMF's Asia and Pacific Department.
2. On June 12, on the sidelines of the G20 Africa Partnership Conference in Berlin, Germany, Vice Finance Minister Zhu Guangyao met with Ludger Schuknecht, G20 Finance Deputy of Germany.
3. On June 12, Finance Minister Xiao Jie met with David Lipton, First Deputy Managing Director of the IMF.

4. On June 14, Finance Minister Xiao Jie met with Martin Feldstein, economics professor of Harvard University.

5. On June 13, Vice Finance Minister Shi Yaobin met with Karin Finkelston, Vice President of the IFC.

6. From June 15 to 17, Vice Finance Minister Liu Wei went to Anhui Province and Henan Province to examine the procurement of summer grains and the destocking of grains.

7. On June 16 and 17, Finance Minister Xiao Jie attended the Second Annual Meeting of the Board of Governors of the AIIB.

8. On June 16, Finance Minister Xiao Jie had a bilateral meeting with Kim Dong-Yeon, Deputy Prime Minister and Finance Minister of South Korea, on the margins of the Second Annual Meeting of the Board of Governors of the AIIB.

9. On June 17, on the margins of the Second Annual Meeting of the Board of Governors of the AIIB held in Jeju, South Korea, Vice Finance Minister Shi Yaobin attended and addressed the AIIB Governors' Roundtable on Financing Asia's Infrastructure Priorities.

10. On June 18, Vice Finance Minister Shi Yaobin and Marcello Estevao, Secretary for International

Affairs of Brazilian Ministry of Finance, co-chaired the 7th China-Brazil Economic and Financial Subcommittee Meeting.

11. On June 19, Finance Minister Xiao Jie and Chen Yulu, Deputy Governor of PBoC, co-chaired the BRICS Finance Ministers and Central Bank Governors Meeting.

12. On June 19, Finance Minister Xiao Jie and Anton Siluanov, Finance Minister of Russia, co-chaired the 7th China-Russia Finance Ministers Dialogue.

13. On June 20 and 21, Vice Finance Minister Hu Jinglin made an investigation visit to Henan Province to learn about poverty reduction through asset returns and policies to support small-scale farmers.

14. On June 23, Vice Finance Minister Zhang Shaochun made a report on the 2016 central government final accounts to the 2nd plenary meeting of the 28th Session of the 12th Standing Committee of National People's Congress.

15. On June 29, Vice Finance Minister Zhu Guangyao attended the press briefing organized by the Ministry of Foreign Affairs on President Xi Jinping's state visit to Russia and Germany and participation in the 12th G20 Leaders Summit, and took questions from journalists.

IV. Local Finance

1. The investment and operation of Shandong provincial government-guided fund achieved notable effects

According to the news released by the Finance Department of Shandong Province on June 5, the finance authorities of Shandong have achieved notable outcomes in actively reforming the approaches of fiscal funds allocation and establishing the government-guided fund. First, 16 policy measures were introduced, including increasing policy incentives, improving institutional rules, expanding investment area, innovating investment models and encouraging cross investment. Second, the equity participation fund has invested 24.2 billion RMB in 175 projects and catalyzed 116 billion RMB of investment from other financial capital and private capital, injecting strong impetus to the economic and social development of Shandong. Third, a four-party coordination mechanism involving Qilu Equity Exchange Center, Shandong Financial Investment Group and Shandong Development and Investment Holding Group was established to foster the synergy and accelerate the pace of direct investment. Fourth, the performance of the government-guided fund and the equity participation fund was monitored

on a monthly basis, the oversight and scrutiny was intensified, and the inspection of funds was carried out.

2. Hengyang City of Hunan Province took six steps to build a transparent and open procurement mechanism

According to the news released by the Finance Department of Hunan Province on June 7, the Finance Bureau of Hengyang City has improved relevant system and enhanced regulation to build a transparent and open procurement mechanism. First, the respective role and responsibility of procurement, financial, anti-corruption departments and competent authorities are clearly defined in government procurement. Second, the procurement entity, to the extent possible, shall compile the government procurement budget for the current year in its departmental budget, ensure funding for its procurement activities, and strictly implement the planned budget. Third, registered capital, operating income and other conditions shall not be used as the criteria for suppliers and SMEs shall not be obstructed and restricted from freely entering the government procurement market in the local region and sector. Fourth, procurer shall first compile the procurement budget and project plan, submit the procurement project to the budget management unit of the Finance Bureau of Hengyang for review, and submit the budget ceiling of procurement project to

the government procurement department for approval. Fifth, procurer and procurement agent shall publish the results of bidding on the media outlets designated by finance authorities within two days after the bid-winning supplier is determined. Sixth, the oversight and inspection of procurer and procurement agent shall be strengthened.

3. Jinhua City of Zhejiang Province has cleaned up charges to reduce the burden of businesses and deliver more benefits of reform

According to the news released by the Finance Department of Zhejiang Province on June 13, it has cleaned up charges to reduce the burden of businesses and deliver more benefits of reform. First, it timely forwarded the documents of the upper-level government agencies on canceling, suspending, exempting and reducing charges and provided its opinions on implementation and interpretation of policies in light of actual circumstances. Second, it developed a catalogue of charges and adjusted the information of charge items and enforcement agencies on a real-time basis and in accordance with latest policies. Third, it unified the public payment platform, developed a science-based and reasonable system for the payment and collection of non-tax revenue, regulated the procedures and operation of electronic payment and collection, and realized the connectivity of platforms. Fourth, it regularly

conducted inspection of the enforcement agencies with regard to the non-tax revenue and financial invoices in the previous year to ensure all policies and rules are well implemented.

4. Finance authorities of Qinghai Province have promoted the development of accounting talents on four aspects

According to the news released by the Finance Department of Qinghai Province on June 14, it has promoted the development of accounting talents by working on four aspects in 2017. First, it focused on continuous learning, improved the accounting training system, and stepped up training for accounting reform and budget management. Second, it promoted the career development of accounting professionals, advanced the qualification review of senior accountants in Qinghai, and improved the plan for the selection and development of top CFOs in Qinghai. Third, it included the accounting work and personnel management into the comprehensive performance evaluation of government departments, the comprehensive performance evaluation of fiscal management, and the annual inspection and record-filing of accounting service agencies. Fourth, it improved the updating of information related to the appointment and transfer of accounting personnel, updated the profiles of accounting personnel, provided high-quality services under various forms

for accounting talents, guided the orderly flow of accounting talents, and promoted the effective allocation of accounting resources.

5. The electronic reform of centralized treasury payment in Shiyan City of Hubei Province has yielded notable effects

According to the news released by the Finance Department of Hubei Province on June 19, the electronic reform of centralized treasury payment in Shiyan City of Hubei Province has yielded notable effects. First, establish a team of experts for professional practice, technology, implementation and oversight. Second, break down reform tasks into seven stages to ensure "one target for one stage, one plan for one target, and one standard for one plan" so that work of each stage can be done precisely and orderly. Third, give full play to the leading role of finance authorities in the electronic reform of centralized treasury payment and enable finance authorities, central bank branches, and correspondent banks to coordinate seamlessly. Fourth, further improve the institutional system for electronic reform by developing the operational rules that suits the responsibilities and management scope of reform participants, establishing mechanisms for handling errors, developing contingency response plans, and creating mechanisms for the operation and maintenance of system and risk prevention.

6. Finance authorities of Qujing City of Yunnan Province took multiple steps to steadily advance supply-side structural reforms

According to the news released by the Finance Department of Yunnan Province on June 21, Qujing City of Yunnan Province has steadily advanced supply-side structural reforms. First, make overall arrangement and ensure adequate resources to cut overcapacity in the coal sector. Effectively reduce corporate leverage ratio by deploying policy-based industrial funds to lessen corporate financial burden, giving full play to the role of special funds, supporting public listing of enterprises, developing a multi-tiered capital market, and creating a platform for government-bank cooperation. Second, significantly reduce tax burden by comprehensively implementing the VAT reform and earnestly cutting the VAT burden on the manufacturing sector. Reduce institutional transaction costs and regulate charging behaviors by cleaning up charge items and collecting charges in accordance with laws. Actively coordinate with the central special funds for inclusive financial development and enhance financial innovation to cut the financing costs of enterprises. Third, increase the proportion of budget arrangement, speed up the pace of fund disbursement, strengthen the consolidation of agriculture-related funds, develop a diversified mechanism for poverty reduction, and focus efforts on improving the weak links.

7. Zhejiang Province has taken four measures to further improve the management of budget performance

According to the news released by the Finance Department of Zhejiang Province on June 26, Zhejiang has taken four measures to further improve the management of budget performance. First, expand the coverage of performance targets and cover special transfer payment programs in performance targets. Further simplify performance targets, make specific, detailed and qualitative requirements for output indicators, streamline the Budget Performance Management Chart, and enhance the effectiveness and quality of performance targets setting. Second, simplify the self-assessment of provincial government departments, and rate each indicator in accordance with the actual performance. Self-assessment of project expenditure performance will cover all provincial departments in Zhejiang by 2019. Third, the departments that do not conduct self-assessment as required or fail to upload the results of self-assessment to the budgeting system will be temporarily withheld from budgetary funds in 2018. The projects with poor results identified in random inspection will be given red-light warning in the budgeting system and be withheld from budgetary funds in the next year. Fourth, further regulate the selection, organization, follow-up management and other procedures of project performance evaluation by the provincial finance department.

8. Hefei City of Anhui Province has expanded the coverage of performance management

According to the news released by the Finance Department of Anhui Province on June 27, it has expanded the coverage of performance management and taken the lead in realizing the broad-based coverage of budget performance management. First, all the projects worth over 500,000 RMB proposed by government departments shall set performance targets in project budget to ensure performance targets are compiled, reviewed and approved concurrently with departmental budget. Second, the project expenditure proposed by government departments shall be categorized along with performance targets, and experts, intermediary agents and other government departments shall be invited to conduct an open review. Third, within one month of the completion of budget implementation, self-assessment of performance shall be conducted for all the projects that have set performance targets, and in the meantime, self-assessment report shall be submitted and the results of self-assessment be made as the precondition for budget arrangement in the next year. Fourth, explore ex-ante, in-process and ex-post performance management work. Conduct performance evaluation over 33 projects related to people's wellbeing to make all such projects subject to performance evaluation. Fifth, cover performance management of all city-level departments and counties in government annual target performance

evaluation. Meanwhile, a leading group headed by executive vice mayor was set up to oversee the budget performance management work.

V. Remarks and Opinions

1. Xiao Jie: the West is making bearish rhetoric when claiming that BRICS is fading

At the recent BRICS Finance Ministers and Central Bank Governors Meeting, Finance Minister Xiao Jie said that as BRICS countries encountered some economic difficulties, some western forces started to make bearish rhetoric about BRICS economy, claiming that BRICS is fading and decelerating, in an attempt to disrupt the development of BRICS countries. It is encouraging that BRICS economy has showed positive signs, as BRICS economic structure keeps improving and economy is gradually moving out of recession. In terms of the external environment, the world economy continues to recover, but remains slower than expected. Uncertainty and instability still abound. The uncertainty of economic policy and divergence of monetary policy on the part of advanced economies are bringing negative spillovers to international financial market, with BRICS and emerging market economies bearing the brunt of such impact. In addition, the rise of de-globalization

and trade protectionism is also presenting BRICS countries with more complicated external economic environment. In terms of internal environment in BRICS countries, BRICS economy, after many years of rapid growth, is undergoing the transition of growth drivers, and urgently needs deep structural adjustment to foster new drivers of growth and raise labor productivity and potential growth rate. Some countries also need to diversify their economy and enhance resilience against risks. In the face of new circumstances, BRICS countries should stay confident and firm, enhance solidarity, and deepen mutual trust and cooperation to address the current problems and challenges. First, develop innovative growth pattern, advance structural reforms, and identify new drivers of growth. Second, strengthen macroeconomic policy coordination to jointly safeguard global economic stability. Third, raise the level of pragmatic cooperation and expand new areas of cooperation. With concerted efforts, the economy of BRICS countries will turn better and continue to be the locomotive and propeller of the world economy.

2. Shi Yaobin: reduce tax burden, invigorate businesses, and boost growth momentum

In his recent speech, Vice Finance Minister Shi Yaobin said that the "business tax to VAT" reform is not only an important tax reform but will have far-reaching impact on national economy, fiscal and tax

system, and corporate operation. It is estimated that from May 2016 to April 2017, or one year since the comprehensive rollout of the VAT reform, 699.3 billion RMB of taxes have been cut, the tax burden of 98.7% of tax payers has been reduced or stayed flat, and the target of lessening tax burden in all industries has been achieved. The VAT reform is progressing in an orderly way, which directly reduced the tax burden of businesses and accelerated the new drivers of economic growth. First, all the industries that were previously subject to business tax start to pay VAT instead, and business tax is replaced with VAT in all industries. This reform helped put an end to the coexistence of business tax and VAT that had been around since 1994, effectively addressed the differences between tax on goods and tax on services and the distortion on business operation caused by such coexistence, further simplified tax regime and tax administration, and reduced the costs of tax collection and payment. Second, this reform extended the VAT deduction to the service sector, integrated the deduction chain between the secondary industry and tertiary industry, effectively reduced the tax costs in the detailed division of labor, promoted specialized division of labor, lengthened the industrial chain, and spurred the creation of new industries and new business models. As VAT paid by manufacturing firms for the purchase of services and immovable properties can be deducted, the incentives of manufacturing firms for purchasing services to upgrade and transform themselves are unleashed, the competitiveness and profitability of businesses

are enhanced, the integration of manufacturing industry and service industry is realized, and the transition from old drivers of growth to new ones is accelerated. Third, this reform reduced the costs and risks of business setup and innovation, created a more favorable tax environment for the development of small and micro enterprises, and spurred the creation of many innovative and growth SMEs. In the process of VAT reform, the policies for the manufacturing industry or other industries that were previously subject to VAT remain unadjusted, yet the tax burden in those industries has gone down significantly. It is estimated that one year since the VAT reform, 241.2 billion RMB of taxes have been cut in the manufacturing industry and other industries that were previously subject to VAT. For the service businesses that paid business tax, VAT eliminated the problem of repeated taxation caused by the undeductibility of business tax, and reduced the tax burden of the industries covered by the VAT reform. In the meanwhile, for the industries that were previously subject to VAT, VAT also addresses the problem of repeated taxation caused by the undeductibility of input tax when they purchase services, and as the coverage of VAT reform expands, the scope of input tax that is deductible will gradually increase in those industries. In other words, although the "business tax to VAT" reform took place in the service industry, its spillover effects are obvious, since the manufacturing industry and other industries that were previously subject to VAT also benefit from the net reduction of taxes even as the applicable tax policies in those

industries remain unchanged. In the current economic context, tax cut of such a size has lessened the burden of manufacturing businesses and boosted the momentum of growth of the real economy.

3. Zhu Guangyao: we should keep an eye on the Federal Reserve's policy

In his recent speech, Vice Finance Minister Zhu Guangyao said that the world economy is showing visible signs of recovery in 2017. IMF raised its forecast for the global economic growth from 3.4% to 3.5%. A factor behind IMF's upward revision of global growth rate is that China's GDP increased by 6.9% in the first quarter, higher than the rate of 6.5% expected in early 2017. Nevertheless, high vigilance is still warranted in terms of monetary policy and financial sector. U.S. and other advanced economies have already started the process of interest rate normalization, and the Federal Reserve will continue to raise the federal funds rate. To track Fed's policy trend, we need to focus on two aspects: the pace, interval and degree of interest rate rise; and the speed and intensity of the shrinking of Fed's balance sheet. This has bearing on not only the U.S. economy but also the world economy. The GDP of the world is 77.3 trillion USD in 2016, of which U.S. accounts for 18.57 trillion USD and China accounts for 11.22 trillion USD. The combined size of Chinese and American economy is around 40% of the world economy. The entire world is paying close attention

to China's economy, U.S. economy, and the impact of China and U.S. economic policy on themselves, on each other and on the world. A well developed Chinese economy is the priority to a healthy China-U.S. relationship. In the meantime, we need to enhance policy coordination with other countries to jointly enlarge the pie of benefits and resolve the new problems and challenges emerged in the course of development.

4. Zhou Qiangwu: develop the investment and financing system for the Belt and Road

In his recently published article, Zhou Qiangwu, Director General of the International Economics and Finance Institute of MOF, said that finance is the lifeblood of modern economy, and only when the blood circulates smoothly can one grow. The countries along the Belt and Road are primarily developing countries with differing level of economic development, relatively weak economic foundation, and huge financial and technological gap. The development of a system and platform for investment and financing is essential for the comprehensive implementation of the Belt and Road. In the past four years, China has conducted various forms of financial cooperation with countries and organizations participating in the Belt and Road. The Silk Road Fund's investment totaled 4 billion USD, the China-Central and Eastern Europe Financial

Holdings Ltd was formally established, and AIIB offered 1.7 billion USD of loans for 9 projects in the Belt and Road countries, catalyzing 12.5 billion USD of funds from public and private sector. As President Xi Jinping announced at the Belt and Road Forum for International Cooperation, China would scale up financial support for the Belt and Road. China is to make an additional 100 billion RMB of financial contribution to the Silk Road Fund, and encourage financial institutions to conduct overseas RMB fund business with an estimated size of 300 billion RMB; the China Development Bank and the China Export-Import Bank will set up special lending schemes respectively worth 250 billion RMB and 130 billion RMB to support Belt and Road cooperation on infrastructure, industrial capacity and financing. This Forum also reached a series of practical outcomes on financial connectivity, for example, the Guiding Principles on Financing the Development of the Belt and Road Initiative was endorsed, and the MOU on Collaboration on Matters of Common Interest was signed by MOF and 6 MDBs including the World Bank. As President Xi Jinping pointed out, it is critical to establish a stable and sustainable financial system that keeps risks under control, create new models of investment and financing, encourage the promotion of PPP model, build a diversified financing system and a multi-tiered capital market, develop inclusive finance, and improve financial services network. To implement the important instructions of President Xi Jinping, we should focus on the financing needs of the Belt and Road

countries for infrastructure connectivity and trade and investment cooperation, mobilize all stakeholders to actively participate in the initiative, and jointly establish a Belt and Road financing system featuring extensive consultation, joint contribution and shared benefits. First, make coordinated use of domestic and international resources. We should make full use of our official development aid, development finance, policy-based finance, commercial finance and other domestic financial resources to advance the development of the Belt and Road financing system. Over the years, China has amassed rich experience in the area of policy-based finance and development finance, and the market-oriented Silk Road Fund and commercial financial institutions are also increasing their participation. Those domestic institutions, with strong capability and influence, are poised to play a big role in the Belt and Road initiative. In the meantime, as MDBs, foreign sovereign wealth funds and institutional investors own huge amount of capital and knowhow, they should be fully incentivized to develop key projects with controllable risks, decent return and shared benefits so as to allow international and domestic resources to complement each other and maximize the synergy. Second, coordinate the role of government and market. We need to enable government to effectively play a guiding and supportive role, promote docking of development strategies of the Belt and Road countries, establish regional infrastructure planning and financing arrangement, and foster a transparent, friendly and non-discriminatory financing

environment. For the projects with strategic significance, official development aid, policy-based finance, development finance, sovereign wealth funds, state-owned enterprises and other public sector capital should jointly crowd in private capital to bring the PPP model to a new level. On the condition of keeping risks under control, we need to encourage the innovation of financing models, channels, instruments and services, develop and improve equity financing market and local currency bond market, and create a complete set of financial policy tools. Ultimately, the development of the Belt and Road initiative depends on market forces. We should follow market rules and international norms, allow market to play a decisive role in the allocation of financial resources and all sorts of businesses to play primary role in market, and enable all sources of capital to jointly participate in the initiative. Third, coordinate multilateral and bilateral cooperation. Most of the Belt and Road projects are bilateral projects, especially those in the area of infrastructure, trade, investment, and industrial cooperation. We need to attach great importance to bilateral financial cooperation, make good use of the resources and financial markets of both China and the fund-recipient country, and better coordinate the bilateral projects. Meanwhile,

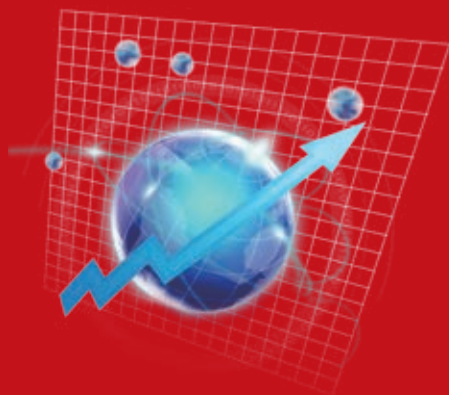
we need to call on MDBs to explore areas of cooperation that not only meet the respective mandate and development strategy of MDBs but also closely align with the Belt and Road initiative, and engage in cooperation on the Belt and Road through co-financing, parallel financing, tripartite cooperation and multipartite cooperation to promote common development. Fourth, coordinate near-term and long-term tasks. In the near term, we should direct the limited funds to the priority regions and countries, focus on the key and demo projects, spend the resources on the major projects, and allow relevant countries to reap tangible benefits. In the medium and longer term, we need to take into full account the financing demand of the construction of economic corridors and transport networks², and develop diversified financing channels and financial management mechanisms to provide stronger, stable and sustainable financing support for the Belt and Road. It is foreseeable that with the joint efforts of China, the Belt and Road countries and international financial institutions, and the opportunities presented by this Belt and Road Forum, the development of the Belt and Road investment and financing system will enter a new stage, giving a stronger impetus to the Belt and Road and bringing more benefits to the people of the Belt and Road countries.

2 Namely six corridors, six means of communication, multiple countries, and multiple ports.

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