

CHINA FINANCE

MONTHLY 中国财政月度资讯

August, 2017

第 08 期



HIGHLIGHTS

- Finance Minister Xiao Jie: the management of local government debt must ensure lifetime accountability
- Finance Minister Xiao Jie attended the 2nd Plenary Meeting of the 29th Session of the 12th Standing Committee of the National People's Congress
- The State Council published a circular on several measures of promoting the increase of foreign capital
- The State Council planned to deepen the reform of central SOEs and reduce leverage
- Revenue under China's general public budget increased by 10% year on year from January to July

Brief Introduction to IEFI

The International Economics and Finance Institute (known as IEFI) is the think tank of the Ministry of Finance of China. It is devoted to financial and economic studies at home and abroad, and to the promotion of global and regional economic cooperation and integration.

The think tank provides policy recommendations to the top decision-makers of MOF and other government agencies of China. It communicates with other government agencies, international organizations, prestigious domestic and foreign think tanks, and other academic groups to strengthen knowledge cooperation, idea exchanges and experience sharing. It publishes research papers and organizes high-level forums and seminars.

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

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I. Policy Update

1. MOF published a supplementary circular on the administration of the appraisal of state-owned assets of central cultural enterprises

On August 9, Ministry of Finance (MOF) published a supplementary circular on the administration of the appraisal of state-owned assets of central cultural enterprises, which provided the following. First, MOF, on behalf of the State Council, discharges the responsibilities of the capital contributor of central cultural enterprises in accordance with laws, and enhances the supervision and administration of the appraisal of state-owned assets of central cultural enterprises by focusing on capital management. Second, MOF is responsible for the research and establishment of relevant systems for the appraisal of state-owned assets of central cultural enterprises, the establishment of a pool of asset appraisal experts, and the regulation of the appraisal of state-owned assets of central cultural enterprises. Third, the record-filing of the projects concerning the appraisal of state-owned assets of central cultural enterprises shall be administered at different levels. Fourth, in the process of asset appraisal, the central cultural enterprises and their subsidiaries shall require appraisal professionals to properly choose appraisal methods. Fifth, within 9 months after the starting date of appraisal, relevant

agencies shall submit records and documents reviewed by authorities for the record-filing of central cultural enterprises. Sixth, the documents and records of appraisal project can not be handled if they are not submitted to authorities within 10 months after the starting date of appraisal. Seventh, central cultural enterprises shall establish and improve internal management system for the appraisal of state-owned assets before the end of December 2017.

2. MOF published a circular on allowing the issuance of “Leitaisai” and other 15 instant welfare lottery games

On August 10, MOF published a circular on allowing the issuance of “Leitaisai” and other 15 instant welfare lottery games, which provided the following. First, allowing the China Welfare Lottery Issuing and Management Center to issue 15 instant welfare lottery games, including "Leitaisai". The sales proceeds of these 15 instant lottery games shall be set aside for lottery winnings, lottery issuance costs and lottery public welfare fund at a proportion of 65%, 15% and 20% respectively. Second, before market sale, the China Welfare Lottery Issuing and Management Center shall make public announcement timely, and specify the title and number of MOF-approved documents, the date of market sale and the Rules for Leitaisai and Other 15 Instant Welfare Lottery Games in the announcement. Third, the China Welfare Lottery Issuing and Management Center shall enhance the cost control of instant lottery issuance, and establish and improve risk prevention and control

system as well as contingency response mechanism for the issuance and sale of instant lottery.

3. MOF published the *Guidelines on Improving the Work of Social Insurance for Poverty Reduction*

On August 10, MOF published the *Guidelines on Improving the Work of Social Insurance for Poverty Reduction*, which provided the following. First, reduce the burden of insurance premiums for the poor people. The local government would pay a portion or all of the minimum old-age insurance premiums for people who are marked as poor and enroll in the basic old-age insurance for urban and rural residents. Second, reduce the burden of medical costs for the poor people. Work on the stable unification of the basic health insurance system for urban and rural residents and ensure that the benefits of the poor people would not decrease. Third, raise the standard of benefits of social insurance when appropriate. Study and establish a mechanism for determining the old-age insurance benefits of urban and rural residents and minimum standard of basic pension, and improve the funding and guarantee system for basic old-age insurance for urban and rural residents. Fourth, provide favorable treatment for the poor people. When determining the rural recipients of minimum living allowances and poverty reduction assistance during the 13th Five-Year Plan period, the basic pension of urban and rural residents set by the central authorities shall temporarily not be counted as

part of the family income.

4. MOF published a circular on further implementing the policy of extra deduction of business R&D expenditures

On August 16, MOF published a circular on further implementing the policy of extra deduction of business R&D expenditures, which provided the following. First, science and technology, finance, and tax authorities at all levels of local government shall establish a working coordination mechanism, and enhance the connection and synergy of work. Second, where tax authorities disagree with the extra deduction offered to a business's R&D project, they shall timely submit the project documents through science and technology authorities from county-level (district) to prefecture level or above for verification. Third, after the receipt of verification request from tax authorities, the authorities in charge of verification shall timely organize verification by experts and feed the verification opinions back to the tax authorities through the original channel within a specified time period. Fourth, where the tax authorities disagree with the verification opinions issued by authorities in charge of verification, they may request provincial science and technology authorities to issue verification opinions. Fifth, tax authorities shall not request the verification of science and technology projects at or above provincial level and the R&D projects already verified in previous years.

5. The State Council published a circular on several measures of promoting the increase of foreign capital

On August 17, the State Council published a circular on several measures of promoting the increase of foreign capital, which provided the following. First, further ease the restrictions on the entry of foreign capital. Fully implement the model of pre-establishment national treatment plus negative list, and further open up the market access of foreign investors. Second, develop supportive fiscal and tax policies. Where foreign investors directly invest their share of profits from domestic enterprises resident in China into projects encouraged by government, they shall be eligible for tax deferral and be temporarily exempted from withholding income taxes. Third, allow foreign capital to play a positive role in optimizing the structure of trade in services. Promote the synergy between the inward investment and outward investment, encourage multinational company to invest and set up regional headquarters in China, direct foreign capital to western region and old industrial bases in northeastern region, and support the construction of key infrastructure and major projects. Fourth, improve the overall investment environment of national-level development zones. Accord to national-level development zones the full authority over the management of investment, support the implementation of projects in national-level development zones, expand the room for attracting foreign capital, and enhance the capacity for delivering industrial support service.

6. The State Council published the *Guidelines on Further Cutting the Costs and Enhancing the Efficiency of Logistics to Promote the Development of the Real Economy*

On August 18, the General Office of the State Council published the *Guidelines on Further Cutting the Costs and Enhancing the Efficiency of Logistics to Promote the Development of the Real Economy*, which provided the following. First, continue to streamline administration, delegate power and improve government services, and unleash the vitality of logistics operators. Second, step up efforts to cut taxes and fees to reduce the burden of businesses. Third, strengthen the key areas and weak links, and enhance the overall capacity for delivering logistics services. Fourth, accelerate the IT-based, standardized and smart development of logistics and warehousing, and improve operational efficiency. Fifth, deepen integrated and coordinated development of logistics industry. Sixth, promote information connectivity and sharing. Seventh, advance institutional reform and cultivate a sound business environment.

7. MOF published the *Guidelines on Applying the PPP Model to Support the Development of Old-age Service Industry*

On August 21, MOF published the *Guidelines on*

Applying the PPP Model to Support the Development of Old-age Service Industry, which provided the following. First, guide and encourage private capital to participate in the PPP model to provide basic old-age services and middle-to-high end services. Second, study the feasibility of old-age service projects. Finance, civil affairs and social security authorities at all levels of government should enhance cooperation to select old-age service projects from the national PPP information platform for the application of PPP model. Third, select private partner on a merit basis and in accordance with laws. Set reasonable conditions for the participation of private capital and remove local protectionism and invisible impediments. Fourth, develop the project return mechanism through multiple channels. Establish the project return mechanism that combines the approaches of government payment, user payment and resource compensation. Fifth, maximize the exemplary and catalytic effects.

8. MOF published a circular on the issuance of 2017 special treasury bonds (first installment and second installment)

On August 22, MOF published a circular on the issuance of 2017 special treasury bonds (first installment and second installment), which provided the following. First, the bonds are issued on the national inter-bank bond market specifically for relevant domestic banks. Second, the two

installments of special treasury bonds are coupon bonds with fixed interest rate and are tradable on market. The first installment has a maturity of 7 years with a face value of 400 billion RMB and coupon rate of 3.6%; the second installment has a maturity of 10 years with a face value of 200 billion RMB and coupon rate of 3.62%. Third, the issue date and the value date is August 29, 2017. Fourth, the interest of the first installment is to be paid on an annual basis on August 29 of each year (deferment is possible in case of holiday), and the principal is to be repaid and the interest be paid for the last time on August 29, 2024; the interest of the second installment is to be paid on a semi-annual basis on February 28 and August 29 (deferment is possible in case of holiday), and the principal is to be repaid and the interest be paid for the last time on August 29, 2027.

9. The State Council planned to deepen the reform of central SOEs and reduce leverage

On August 24, Premier Li Keqiang chaired an executive meeting of the State Council, which provided the following. First, establish a strict sector-based management and control system for keeping the debt ratio within the red line. Second, establish a mechanism to reduce corporate debt through various channels. Third, actively and prudently promote the market-based and law-based debt-to-

equity swap, and urge the implementation of already signed framework agreements. Fourth, enhance accountability, alert and warning for the enterprises with a rising debt ratio, and seriously hold those that cause severe loss and negative impact accountable. Fifth, transform and upgrade industries and reduce leverage in the process of advancing the transition of growth drivers.

10. MOF published the *Plan on the Optimization and Consolidation of National Science and Technology Innovation Bases*

On August 25, MOF published the *Plan on the Optimization and Consolidation of National Science and Technology Innovation Bases*, which provided the following. First, the national science and technology innovation bases in the field of science and engineering research should be oriented towards national strategic objectives, focus on major frontier technology and projects, and carry out strategic, frontier, forward-looking, basic and comprehensive innovation activities. Second, the national science and technology innovation bases in the field of technology innovation and commercialization of findings should be aligned to the national needs of promoting economic and social development, social governance and safety, carry out the research of key generic technology and engineering technology, promote the application, commercialization and

industrialization of technology, and enhance the national independent innovation capacity and the level of science and technology. Third, the national science and technology innovation bases in the field of basic support and service should focus on the scientific research work for discovering natural laws and obtaining field observation data and should provide basic support and services that are pro-public, open and available for sharing.

11. MOF published the *Measures for the Administration of Central Fiscal Subsidy Funds for Providing Agricultural Disaster Relief and Tackling Major Floods and Droughts*

On August 30, MOF published the *Measures for the Administration of Central Fiscal Subsidy Funds for Providing Agricultural Disaster Relief and Tackling Major Floods and Droughts*, which provided the following. First, in light of the available funds for disaster relief, MOF, after consultation with the Ministry of Agriculture (MOA), Ministry of Water Resources (MWR) and the Ministry of Land and Resources (MLA), will determine and arrange for the specific allocation of funds for relieving agricultural disaster, tackling major flood and drought, and combating geological disaster. Second, in applying for the disaster relief funds, the provincial finance, agriculture, water resource and land authorities should jointly apply to MOF, MOA, MWR and MLA. Third,

MOA shall review and verify the application made by provinces for agricultural disaster relief funds and provide MOF with advices on the allocation of funds. Fourth, the disaster relief funds to be allocated to provinces shall be disbursed by MOF to provincial finance authorities and be carbon copied to relevant ministries.

II. Facts & Figures

1. The total value of China's imports and exports in July increased by 12.7% year on year

The data released by the General Administration of Customs (GAC) on August 8 showed that China's imports and exports in July totaled 2.322258 trillion RMB, down by 3.4% month on month and up by 12.7% year on year; specifically, exports amounted to 1.321735 trillion RMB, down by 2.0% month on month and up by 11.2% year on year, and imports amounted to 1.000524 trillion RMB, down by 5.1% month on month and up by 14.7% year on year. After adjusting for seasonal factors, China's imports and exports in July increased by 13.8% year on year; specifically, exports rose by 12.8% and imports surged by 15.1%. Moreover, China's imports and exports in July went down by 1.6% month on month, among which, exports fell

by 1.6% and imports dropped by 1.5%.

2. China's CPI rose by 1.4% year on year in July

The data released by the National Bureau of Statistics (NBS) on August 9 showed that China's CPI rose by 1.4% year on year in July, among which, CPI rose by 1.5% in urban areas and 1.0% in rural areas; fell down by 1.1% for food and went up by 2.0% for non-food; increased by 0.5% for consumer goods and 2.9% for services. In July, CPI edged up by 0.1% month on month, among which, the figure rose by 0.1% in urban areas and stayed flat in rural areas; decreased by 0.1% for food and went up by 0.2% for non-food; went down by 0.2% for consumer goods and rose by 0.6% for services.

3. China's PPI in July rose by 5.5% year on year

The data released by NBS on August 9 showed that China's PPI in July rose by 5.5% year on year, among which, the price of capital goods increased by 7.3% year on year, and the price of consumer goods rose by 0.5% year on year. In July, China's PPI rose by 0.2% month on month, among which, the price of capital goods went up by 0.2% month on month, and the price of consumer goods stayed flat month on month.

4. The central finance authority disbursed 80 million RMB to support disaster relief of Jinghe County, Bortala Prefecture, Xinjiang Uyghur Autonomous Region struck by an earthquake of magnitude 6.6

The data released by MOF on August 10 showed that an earthquake of magnitude 6.6 struck Jinghe County, Bortala Prefecture, Xinjiang Uyghur Autonomous Region on August 9, severely affecting the production and life of local people. To implement the instructions of central leaders and assist affected area with disaster relief, the central finance authority made an emergency disbursement of 80 million RMB of disaster relief subsidies on August 10, among which, 50 million RMB went to Xinjiang Uyghur Autonomous Region and 30 million RMB went to Xinjiang Production and Construction Corp for emergency resettlement, living assistance, reconstruction of collapsed and damaged houses, and other disaster relief expenses.

5. Revenue under China's general public budget increased by 11.1% year on year in July

The data released by MOF on August 11 showed that revenue under China's general public budget was 1.6457 trillion RMB in July, up by 11.1% year on year, among which, revenue at the central

government level was 850.9 billion RMB, up by 9.6%; revenue at the local government level was 794.8 billion RMB, up by 12.8%. Expenditure under China's general public budget was 1.3496 trillion RMB in July, up by 5.4% year on year, among which, expenditure at the central government level was 232.8 billion RMB, up by 6.3% year on year; expenditure at the local government level was 1.1168 trillion RMB, up by 5.2% year on year.

6. The value-added of industrial enterprises above the designated size went up by 6.4% year on year in July

The data published by NBS on August 14 showed that the value-added of industrial enterprises above the designated size went up by 6.4% year on year in July, and up by 0.41% month on month. Specifically, there was a decrease of 1.3% year on year in the mining sector, an increase of 6.7% in the manufacturing sector, and an upsurge of 9.8% in the electricity, heating, gas and water sector. By enterprises of different ownership, there was an increase of 6.7% year on year in state-controlled enterprises, a decrease of 3.6% in collectively owned enterprises, an increase of 6.7% in joint-stock enterprises, and an upsurge of 6.7% in foreign-invested and Hong Kong, Macau and Taiwan enterprises. By regions, there was an increase of 6.4% in the eastern region, 7.9% in the central region, 5.9% in the western region and 0.6% in the northeastern region.

7. China's fixed asset investment increased by 8.3% from January to July

The data published by NBS on August 14 showed that China's fixed asset investment reached 33.7409 trillion RMB in the first 7 months of 2017, up by 8.3% year on year. By industries, the primary industry investment was 1.0677 trillion RMB, up by 14.4% year on year; the secondary industry investment was 12.715 trillion RMB, up by 3.4% year on year; and the tertiary industry investment was 19.9583 trillion RMB, up by 11.3% year on year. By regions, the eastern region's investment was 14.5328 trillion RMB, up by 9.2% year on year; the central region's investment was 8.7344 trillion RMB, up by 8.5% year on year; the western region's investment was 8.7486 trillion RMB, up by 10.6% year on year; and the northeastern region's investment was 1.4665 trillion RMB, down by 9.3% year on year. By enterprises of different ownership, the domestic enterprises' investment was 32.2411 trillion RMB, up by 8.9% year on year; the Hong Kong, Macau and Taiwan enterprises' investment was 752.1 billion RMB, down by 5% year on year; and the foreign enterprises' investment was 638.8 billion RMB, down by 5.7% year on year.

8. China's private fixed asset investment increased by 6.9% from January to July

The data published by NBS on August 14 showed that China's private fixed asset investment reached 20.464 trillion RMB in the first 7 months of 2017, up by 6.9% year on year. By regions, the private fixed asset investment was 9.6065 trillion RMB in the eastern region, up by 9.4% year on year; 5.92 trillion RMB in the central region, up by 7.2% year on year; 3.9146 trillion RMB in the western region, up by 6.2% year on year; and 1.023 trillion RMB in the northeastern region, down by 9.8% year on year. By industries, the private fixed asset investment in the primary industry was 856.2 billion RMB, up by 16.3% year on year; 10.0485 trillion RMB in the secondary industry, up by 4.3% year on year; and 9.5593 trillion RMB in the tertiary industry, up by 8.9% year on year.

9. China's retail sales of consumer goods in July went up by 10.4%

The data published by NBS on August 14 showed that retail sales of consumer goods in July totaled 2.961 trillion RMB, up by 10.4% year on year in nominal terms. In July, the retail sales of urban areas totaled 2.5474 trillion RMB, up by 10.2% year on year; and the retail sales of rural areas amounted to 413.6 billion RMB, up by 11.7%. In addition, catering revenues amounted to 320.4 billion RMB, up by 11.1% year on year; and retail sales of goods reached 2.6406 trillion RMB, up by 10.3% year on year.

10. A total of 3.9 trillion RMB of bonds were issued on China's bond market in July

The data released by PBoC on August 15 showed that 3.9 trillion RMB of bonds were issued on China's bond market in July, among which, 302.6 billion RMB were government bonds, 357.7 billion RMB were financial bonds, 641.6 billion RMB were corporate bonds, 12.7 billion RMB were asset-backed securities, and 1.6 trillion RMB were interbank certificates of deposit. In July, the transaction of the money market amounted to 59.5 trillion RMB, among which, the figure for pledge-style repo was 51.6 trillion RMB, the figure for outright repo was 2.3 trillion RMB, and the figure for interbank borrowing was 5.7 trillion RMB.

11. China's M2 balance was 162.9 trillion RMB in late July

The data released by PBoC on August 15 showed that in late July, M2 balance was 162.9 trillion RMB, up by 9.2% year on year; M1 balance was 51.05 trillion RMB, up by 15.3% year on year; M0 balance was 6.71 trillion RMB, up by 6.1% year on year. In late July, the balance of RMB and foreign currency loans totaled 121.04 trillion RMB, up by 13% year on year, among which, the balance of RMB loans was 115.4 trillion RMB, up by 13.2% year on year; the balance of foreign currency loans

was 837.9 billion USD, up by 7.4% year on year. In late July, the balance of RMB and foreign currency deposits was 165.83 trillion RMB, up by 9.8% year on year, among which, the balance of RMB deposits was 160.48 trillion RMB, up by 9.4% year on year; and the balance of foreign currency deposits was 794.6 billion USD, up by 23.1% year on year.

12. The operating incomes of SOEs rose by 16.5% year on year from January to July

The data published by MOF on August 24 showed that the operating incomes of SOEs totaled 28.94212 trillion RMB from January to July, up by 16.5% year on year, among which, the figure for central SOEs was 17.26905 trillion RMB, up by 15.1% year on year, and the figure for local SOEs was 11.67307 trillion RMB, up by 18.7% year on year. The operating costs of SOEs totaled 27.97982 trillion RMB, up by 15.8% year on year, among which, the figure for central SOEs was 16.52109 trillion RMB, up by 14.7% year on year, and the figure for local SOEs was 11.45873 trillion RMB, up by 17.3% year on year. The profits of SOEs totaled 1.66102 trillion RMB, up by 23.1% year on year, among which, the figure for central SOEs was 1.08596 trillion RMB, up by 17.3% year on year, and the figure for local SOEs was 575.06 billion RMB, up by 35.8% year on year. The payable taxes of SOEs totaled 2.36233 trillion RMB, up by 10.2% year on year, among

which, the figure for central SOEs was 1.75434 trillion RMB, up by 5.9% year on year, and the figure for local SOEs was 607.99 billion RMB, up by 25% year on year.

13. Chinese government procurement increased by 22.1% year on year

The data released by MOF on August 25 showed that Chinese government procurement totaled 2.57314 trillion RMB, up by 22.1% year on year. The procurement of goods totaled 724 billion RMB, up by 10.2% year on year; and the procurement of services totaled 486.08 billion RMB, up by 45.4% year on year. The government centralized procurement, departmental centralized procurement and decentralized procurement reached 1.6446 trillion RMB, 613.29 billion RMB, and 851.08 billion RMB respectively, accounting for 52.9%, 19.7% and 27.4% of national government procurement respectively.

14. The total profits of major industrial enterprises in China rose by 21.2% year on year from January to July

The data published by NBS on August 27 showed that from January to July, the profits of major industrial enterprises in China totaled 4.24812

trillion RMB, up by 21.2% year on year. By types of ownership, the figure stood at 927.39 billion RMB for state-controlled ones, up by 44.2% year on year; 25.94 billion RMB for collectively owned ones, up by 3.7%; 2.99073 trillion RMB for joint-stock ones, up by 22.9%; 1.01977 trillion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, up by 17.7%; and 1.41616 trillion RMB for private ones, up by 14.2%. By sectors, the figure stood at 279.55 billion RMB for the mining sector, up by 7.9 times year on year; 3.74131 trillion RMB for the manufacturing sector, up by 18.1%; 227.26 billion RMB for the electricity, heating, gas and water production and supply sector, down by 25.3%.

15. China's lottery sales increased by 4.2% in July

The data released by MOF on August 29 showed that nationwide lottery sales in July totaled 33.755 billion RMB, up by 4.2% year on year, among which, welfare lottery sales were 17.418 billion RMB, up by 4.8% year on year; and sports lottery sales were 16.337 billion RMB, up by 3.5% year on year. By type, the lotto lottery sales were 21.359 billion RMB, up by 7.8% year on year; the toto lottery sales were 6.777 billion RMB, down by 4.3% year on year; the instant lottery sales were 1.76 billion RMB, down by 7.2% year on year; the video lottery sales were 3.839 billion RMB, up by 7.0% year on year; and the keno lottery sales were 20

million RMB, up by 10.7% year on year.

2.403621 trillion RMB, up by 28.3%.

16. Revenue under China's general public budget increased by 10% year on year from January to July

The data released by MOF on August 30 showed that revenue under China's general public budget was 11.076246 trillion RMB from January to July, up by 10% year on year, among which, revenue at the central government level was 5.24003 trillion RMB, up by 9.6%; revenue at the local government level was 5.836216 trillion RMB, up by 10.4%. Expenditure under China's general public budget was 11.697938 trillion RMB from January to July, up by 14.5% year on year, among which, expenditure at the central government level was 1.652336 trillion RMB, up by 9%; expenditure at the local government level was 10.045602 trillion RMB, up by 15.5%. From January to July, revenue under China's government-managed fund was 2.839499 trillion RMB, up by 31.6% year on year, among which, revenue at the central government level was 242.749 billion RMB, up by 12.1%; revenue at the local government level was 2.59675 trillion RMB, up by 33.8%. Expenditure under China's government-managed fund budget was 2.494333 trillion RMB from January to July, up by 26.7% year on year, among which, expenditure at the central government level was 90.712 billion RMB, down by 4.7%; expenditure at the local government level was

17. China's manufacturing PMI in August was 51.7%

The data published by NBS on August 31 showed that China's manufacturing PMI in August was 51.7%, up by 0.3 percentage point month on month. In a breakdown of enterprises, PMI was 52.8% for large-sized ones, down by 0.1 percentage point month on month; 51.0% for medium-sized ones, up by 1.4 percentage points month on month; and 49.1% for small-sized ones, up by 0.2 percentage point month on month. In specific terms, the production index was 54.1%, up by 0.6 percentage point month on month; the new order index was 53.1%, up by 0.3 percentage point month on month; the raw material inventory index was 48.3%, down by 0.2 percentage point month on month; the employee index was 49.1%, down by 0.1 percentage point month on month; and the supplier delivery time index was 49.3%, down by 0.8 percentage point month on month.

18. China's non-manufacturing business activity index was 53.4% in August

The data released by NBS on August 31 showed that China's non-manufacturing business activity index

was 53.4% in August, down by 1.1 percentage points month on month. Specifically, the figure was 52.6% for the service industry, down by 0.5 percentage point month on month, and was 58.0% for the building industry, down by 4.5 percentage points month on month. The new order index was 50.9%, down by 0.2 percentage point month on month; the input price index was 54.4%, up by 1.3 percentage points month on month; the sales price index was 51.5%, up by 0.6 percentage point month on month; the employee index was 49.5%, staying flat month on month; and the business activities expectation index was 61.0%, down by 0.1 percentage point month on month.

III .MOF Events

1. On August 2 and 3, Vice Finance Minister Liu Wei made a field research visit to Ruijin City, Jiangxi Province.

2. From August 3 to 5, Vice Finance Minister Shi Yaobin visited Singapore to interview the candidates for AMRO's Deputy Director, and met with Japanese Deputy Finance Minister Masatsugu Asakawa and Korean Deputy Finance Minister Song In-chang.

3. On August 10, Vice Finance Minister Zhu Guangyao met with Johannes Beermann, Deputy

Governor of Deutsche Bundesbank.

4. On August 17, Vice Finance Minister Zhang Shaochun attended the first meeting of the leading work group on the revision of Accounting Law.

5. On August 25, Vice Finance Minister Shi Yaobin met with Axel Trotsenburg, World Bank Vice President for Development Finance.

6. On August 29, Finance Minister Xiao Jie attended the 2nd Plenary Meeting of the 29th Session of the 12th Standing Committee of the National People's Congress and made a report on the progress of budget execution this year.

IV .Local Finance

1. Finance authorities of Yantai City, Shandong Province made full effort to support the development of cultural and tourism industry in Yantai

According to the news released by the Finance Department of Shandong Province on August 9, the finance authorities of Yantai City, Shandong Province, on account of the development needs of

tourism industry, made full effort to support the development of cultural and tourism industry in Yantai. First, 147 million RMB of special funds were arranged for promoting the image of Yantai, expanding domestic and overseas tourism market, strengthening informatization construction, and constructing public service facilities for tourism. Second, Yantai government invested 60 million RMB of funds and mobilized over 40 billion RMB of private capital, which helped expand the channels of investing and financing for the cultural sector, enhanced Yantai's cultural strength, and facilitated the implementation of a batch of influential cultural projects. Third, funds were consolidated for the promotion of Yantai's image and publicity. High-end art market was expanded to enhance the cultural taste of Yantai, and the protection of relics and intangible cultural heritage was strengthened to boost the attractiveness of tourism.

2. Yunnan Province made great effort to support the poverty alleviation of ethnic minority groups that moved from primitive society to modern society and with small population

According to the news released by the Finance Department of Yunnan Province on August 10, Yunnan has made great effort to support the poverty alleviation of ethnic minority groups that moved from primitive society to modern society and with small

population. First, develop local specific projects for ethnic groups that cover capacity enhancement, social housing, infrastructure improvement and environmental protection by considering the particular difficulties of 11 ethnic minority groups that moved from primitive society to modern society and with small population to advance their poverty alleviation. Second, focus on poverty alleviation through education, and break the cycle of intergenerational poverty through 6 measures, including free education, waiver of tuition and miscellaneous fees and provision of rewards and grants. Third, in light of the fragmentation of social assistance policies and the rigid link of social aid to minimum living allowance, the provincial finance authority of Yunnan arranged 10.3 billion RMB of living subsidies for poor citizens, expanded the scope of fund consolidation, increased the coverage of recipients of special aid, improved the method of determining the recipients of minimum living allowance, and enhanced the overall arrangement of social assistance resources. Fourth, personal accident insurance and rural home insurance were newly introduced for the small-population ethnic minority groups, and grants for the students from these ethnic groups that attend high school and colleges were also introduced. Fifth, transfer payment was stepped up for the ethnic minority areas.

3. Finance authorities of Guangdong

Province enhanced the financial management of units affiliated to provincial departments in Guangdong

According to the news released by the Finance Department of Guangdong Province on August 15, it has rigorously enhanced the financial management of units affiliated to provincial departments in Guangdong. First, improve budget compilation, enhance the administration of budget execution, strengthen the management of revenue and expenditure, improve the management of final accounts, and disclose information related to budget and final accounts. Second, strictly control spending related to the “three public expenses”, and enhance the management of expenses related to official overseas trips, hospitality, vehicles, conferences and training. Third, strengthen the management of accounting, accounts, payment and settlement, regulate the review mechanism of expense reimbursement, and enhance the administration of government procurement and the financial management of capital construction. Fourth, provincial departments shall develop financial management rules for units affiliated to them while enhancing the financial guidance for them. Establish regular training mechanism and constantly improve operational capacity. Fifth, the affiliated units shall further strengthen the internal control system, and the provincial departments shall set up financial oversight and inspection mechanism for their affiliated units.

4. Ziyang City of Sichuan Province advanced poverty reduction in a multi-dimensional way

According to the news released by the Finance Department of Sichuan Province on August 17, the finance authority of Ziyang City has advanced poverty reduction in Ziyang in a targeted and multi-dimensional way. First, take strong measures to ensure that the growth of government’s special funds for poverty reduction is 30 percentage points higher than the growth of general public budget revenue. Address the fragmentation of projects and consolidate projects for poverty reduction. Optimize the method of disbursing fiscal funds and strictly supervise the progress of fund disbursement. Second, provide rewards and subsidies for the synergy between fiscal funds and financial capitals, support the development of financial industry, and expand the supply of credit. Explore the use of financial capital for poverty reduction in villages, develop local industries to enrich villagers, and carry out trial lending schemes that use ownership rights, contractual rights and operating rights of rural land and inventory as collaterals. Third, strictly implement the requirements of setting up four poverty reduction funds that seek to alleviate poverty through educational development, improvement of health care, provision of micro credit and industrial development in poor villages. Introduce a whole-process mechanism for providing medical treatment

for poor people and create an assistance system for medical treatment of poor people. Fourth, make overall plan and enforce it in a step by step way, and make the plan for developing asset equity generated by pro-agriculture fiscal funds.

5. Maanshan City of Anhui Province improved the allocation of public fiscal resources towards poverty reduction

According to the news released by the Finance Department of Anhui Province on August 18, Maanshan City has adopted a systemic approach to improve the allocation of public fiscal resources towards poor counties and districts, villages and households at a macro, intermediate and micro level to ensure that the funds go to the neediest people and the policies address the root cause of poverty. First, implement and improve poverty reduction policies. Second, establish a mechanism to ensure the stable increase of special poverty reduction funds. Third, recover 500,000 RMB of funds for poverty reduction. Fourth, integrate 52.55 million RMB of agriculture-related funds. Fifth, enhance the oversight of poverty reduction funds. Sixth, explore new model of asset use return for poverty reduction.

6. MOF's Fiscal Inspector's Office in

Shanghai focused on four aspects to push forward budget performance management

According to the news released by the MOF's Fiscal Inspector's Office in Shanghai on August 24, it has focused on four aspects to push forward budget performance management. First, on quality, it has exercised modular management and regulated the regulatory behavior. Second, on efficiency, it has established an information platform and supervised the sharing of resources. Third, on oversight, it has set up a monitoring system and urged the correction of problems. Fourth, on application of inspection results, it has enhanced the inspection and investigation efforts and raised the quality and effectiveness of regulation.

7. Foshan City of Guangdong Province has taken multiple measures to further regulate and advance the government procurement of services

According to the news released by the Finance Department of Guangdong Province on August 29, Foshan City has taken multiple measures to further regulate and advance the government procurement of services. First, specifically study and determine the size and source of funds for the procurement of service in accordance with the management rules of special fiscal funds and on a

case-by-case basis. Strengthen the management of budget compilation and fund disbursement. Second, revise and publish the *Guiding Catalogue for the Foshan Municipal Government's Procurement of Services from Private Sector*, to provide guidance for the private sector's provision of services and participation in social management. Third, in accordance with the principle of openness, fairness and justice, constantly regulate the approaches of government's procurement of services from private sector, conduct government procurement of services by strictly following relevant regulations, regulate the procurement procedures, and ensure openness and transparency. Fourth, develop relevant interim measures for procurement of services, guiding catalogue for procurement of services as well as other supporting policies. Fifth, the finance authority of Foshan, along with procurers, civil affairs authorities, and the third-party evaluation agencies shall conduct performance evaluation of government procurement of services from private sector.

8. Yunnan Province has run the pilot program of comprehensive rural reform to actively explore the supply-side structural reform in the agricultural sector

According to the news released by the Finance Department of Yunnan Province on August 30, it has combined top-level design and grass-root exploration

to actively, properly and solidly move forward all pilot and trial programs. First, select, on a merit basis, high-standard and sizable projects for the purpose of enhancing agricultural productivity, raising farmers' income and improving rural environment by exploring the establishment of mechanisms that promote rural harmony and stability and advance agricultural modernization. Second, rely on the geographical, industrial, ecological and cultural advantages of different localities and make meticulous and science-based three-year plans to run the pilot programs focused on strengthening village-level collective economy, improving rural governance, increasing farmers' income and enhancing rural ecological development. Third, encourage farmers to set up new types of economic cooperatives through participation of equity and technologies. Develop local-specific business models such as fruit picking and flower viewing. Establish and improve mechanisms for rural environmental management and green and sustainable agricultural development. Fourth, improve organizational structure, enhance accountability, refine departmental division of labor, and strengthen the synergy and coordination.

V. Remarks and Opinions

1. Xiao Jie: the management of local government debt must ensure lifetime accountability

According to the report made by Finance Minister Xiao Jie at the 2nd Plenary Meeting of the 29th Session of the 12th Standing Committee of the National People's Congress, local government debt risks must be actively and properly resolved and the increase of contingent liabilities be resolutely curbed. Moreover, local governments must be urged to enforce their primary responsibilities in debt management, the accountability be enhanced, the clamp down on wrongdoings be stepped up, and the governments official's performance evaluation system be improved so as to ensure lifetime accountability. It is imperative to strengthen the management of local governments debt. First, improve the regulatory policies on local governments debt. Introduce documents that further regulate local governments debt financing and prohibit the local governments from illegal financing disguised as government procurement of services, provide the right guidance, draw up a negative list, and ban the borrowing in the name of PPP, government-managed fund, government procurement of services, etc. Improve local government special bond scheme, develop special bonds capable of generating proceeds for repayment, and run such trial programs in the area of land reserve and government toll road. Second, investigate illegal financing of local governments and make public the typical cases of wrongdoing. Carry out investigations of the illegal financing and guarantee by some cities and counties, hold the wrongdoers to justice in accordance with laws and regulations, and dismiss, demote and fine

those responsible. In the meantime, make public the results of discipline for the purpose of warning and education. Third, make plans on further enhancing the prevention and control of local governments debt risks. Urge local governments to take measures for the prevention of government debt risks and hold the wrongdoers to account. The near-term fiscal work plan will seek to actively and properly resolve local governments debt risks, strictly enforce budget law and relevant State Council documents, urge local governments to strengthen debt limit management and budget management, and expedite the swap of existing local governments debt for bonds. Curb the increase of debt by closing the back door and opening the front door, firmly shut down the "back door" of illegal borrowing, require all local governments to borrow in a well-regulated way through the issuance of government bonds, and resolutely contain the increase of contingent liabilities. Meanwhile, open the "front door" of legal and regulated borrowing, reasonably determine the local governments debt limit by regions on account of the different local needs for social and economic development, and steadily advance the reform of special bond management. Actively and properly resolve the risks of accumulated debt. Urge local governments to enforce the primary responsibility for debt management, intensify the accountability and punishment of wrongdoings, improve performance evaluation system, and ensure lifetime accountability. Accelerate the market-based transformation of financing vehicles. Urge

financial institutions to operate in a well-regulated and prudential way and to earnestly strengthen the control of risks.

2. Zhu Guangyao: global economy is turning better but instabilities remain

In his recently published speech, Vice Finance Minister Zhu Guangyao said that the world economy is on a stable track with a sound momentum of growth and deflationary pressure is easing, nevertheless, financial instabilities have increased, and global economic imbalance and outdated governance system still remain. Since 2017, IMF has revised upward its forecast of China's growth for three times to 6.7% from 6.2% in 2016, reflecting the contribution of China's structural reform to economic stability and growth. The debt ceiling of U.S. federal government and the shrinking of Federal Reserve's balance sheet are two critical issues shaping the U.S. economy. The imminent issue that the U.S. Congress would face after summer recess in September is the debt ceiling of federal government. The 19.8 trillion USD debt ceiling must be increased. The size of the U.S. economy is 18.57 trillion USD, whereas the current debt ceiling has reached 19.8 trillion USD, with debt ratio exceeding 100%. U.S. Congress must address the debt ceiling issue. Another issue is the shrinking of Federal Reserve's balance sheet. In the wake of the 2008 global financial crisis, U.S. implemented the monetary policy of quantitative

easing. As a result, the balance sheet of Federal Reserve ballooned, swelling from 1.5 trillion USD to 4.5 trillion USD. The gradual shrinking of balance sheet is an integral part of the normalization of U.S. interest rate, but its impact is different from that of the direct increase of Federal Reserve's bank interest rate.

3. Liu Wei: four measures have been taken to implement the proactive fiscal policy

In his recently published speech, Vice Finance Minister Liu Wei said that four measures have been taken to implement the proactive fiscal policy in 2017. First, step up the efforts of cutting taxes and fees. Further reduce the burden of businesses, implement and roll out the business tax to VAT reform, simplify the VAT rate structure, expand the scope of low-profit small enterprises that are eligible for halved corporate income taxes, ease the conditions for claiming tax incentives for business setup and investment, and raise the proportion of pre-tax extra deduction of the R&D expenditures of high-tech SMEs. In the meantime, intensify efforts to cut fees, including to clean up and regulate administrative charges and government-managed fund, publish the list of central and provincial charges on the websites of finance authorities, cut unemployment insurance premium rate, reduce logistics and energy costs, and cut operational and service charges. Second,

strengthen the administration of budget execution. The disbursement of transfer payment from the central government to local governments has been basically completed before the end of June except for some particular items. The reform of the centralized treasury receipt and payment system was deepened to ensure timely disbursement and transfer of funds and raise the efficiency of fund operation. Fiscal expenditure gathered speed as the growth of national fiscal expenditure in the first half of 2017 was 6 percentage points higher than the growth of revenue in the same period, and was 0.7 percentage point higher than the same period of last year. Budget performance management was enhanced, and the coverage of performance targets was extended from general public budget items to some items under government-managed fund and state-owned capital operation budget. Third, improve people's wellbeing. Promote targeted poverty reduction and alleviation, intensify the fight against poverty in extremely poor regions, expand the trial program of consolidating agriculture-related funds to all poor regions, and support local government's efforts to explore poverty reduction through asset returns. Unify the subsidy and fee-waiver policies for students receiving compulsory education in urban and rural areas and allow for the portability of relevant education resources as students move from place to place. Adjust and improve the policies for employment and business setup, and implement more active employment policies. Further consolidate aid and subsidy funds for people with difficulties, and support local government with

assisting extremely poor people and recipients of minimum living allowances. Raise the standard of relevant fiscal subsidies and support the development of medical and health undertakings. Increase the support towards the prevention and treatment of air, water and soil pollution, and advance ecological and environmental protection. Increase support towards financially difficult regions suffering from resource and energy depletion, and ensure the basic livelihood of people. Fourth, enhance local government debt management. Further regulate the debt financing of local government, provide guidance for the bond issuance of local government, improve the local government's special bond issuance mechanism, establish risk warning and contingency response mechanism, and set up a regular oversight mechanism for local government debt.

4. Zhu Guangyao: the implementation of the Belt and Road initiative must address five aspects of connectivity

In his recently published speech, Vice Finance Minister Zhu Guangyao said that the full implementation of the Belt and Road initiative requires policy coordination, infrastructure connectivity, unimpeded trade, financial integration and people-to-people bonds. First, policy coordination. Countries involving in the Belt and Road initiative should enhance mutual understanding through exchange and communication of policy, and on the precondition of mutual respect,

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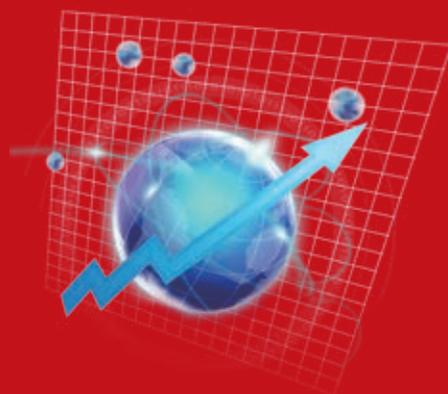
enhance the connection between the Belt and Road's overall direction and policy framework and the national development plans. Second, infrastructure connectivity. In the context of economic globalization, trade facilitation and connectivity are crucial. In the past 4 years, China and relevant countries have made huge efforts to promote infrastructure connectivity. At the G20 Hangzhou Summit, China and other G20 countries made great strides in promoting infrastructure connectivity and establishing infrastructure alliance, which is also an important part of infrastructure connectivity under the Belt and Road. Progress has been constantly made in the cooperation on land, sea and air transport. Third, unimpeded trade. Unimpeded trade is critical for today's world. Faced with the shock of complicated factors that include the backlash against globalization, the growth of international trade has been lagging behind the global GDP growth in the past few years. Invigoration of international cooperation and promotion of international trade are crucial for all countries. When it comes to cooperation on economic globalization, there should only be win-win and multiple-win outcomes rather than lose-lose and multiple-lose outcomes caused by the backlash against economic globalization. The efforts made by the Belt and Road initiative on promoting unimpeded

trade have been enthusiastically received and actively supported by countries along the Belt and Road. This is in line with the respective development needs of the Belt and Road countries and the necessary avenue for promoting international cooperation under the framework of economic globalization. Economic globalization must be advanced and global trade must move forward. Fourth, financial integration. No matter whether it is infrastructure construction or trade cooperation, financial support is essential. This requires not only short-term trade financing support, but also long-term source of investment funds. Fifth, people-to-people bonds. The Belt and Road initiative should build mutual understanding and trust among the people of Belt and Road countries, which is also the popular foundation for moving forward the Belt and Road initiative. On respecting the legal system and customs of countries, China needs to do more to assure all the Belt and Road countries that in the process of advancing the Belt and Road initiative and building a community of shared destiny, their national culture and tradition will be protected and their advantages be leveraged to the extent possible, and their mutual trust be enhanced through exchange and communication.

Journal Title: China Finance Monthly
Editor: International Economics and Finance Institute
Publisher: Editorial Office, China Finance Monthly
Mailing Address: IEFI, Ministry of Finance, China, 100820
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Publishing Date: August, 2017



CHINA FINANCE MONTHLY