

CHINA FINANCE

MONTHLY 中国财政月度资讯

September, 2018 第 9 期



HIGHLIGHTS

- Finance Minister Liu Kun met with Valdis Dombrovskis, Vice President of the European Commission
- Lou Jiwei: giving play to the role of market is key to the advancement of the supply-side structural reform
- The State Council planned new measures to boost the development of the real economy
- The State Council decided to promote the faster implementation of foreign-invested projects
- Revenue under China's general public budget increased by 4% in August

Brief Introduction to IEFI

Founded in 2007, the International Economics and Finance Institute (IEFI) is affiliated to the Ministry of Finance of China, specializing in international economic and financial studies. Its main functions include macroeconomic research on advanced economies such as U.S., Europe and Japan, and on emerging economies such as BRICS countries; research on global and regional economic and financial cooperation, global governance reform and international development cooperation; participation in bilateral and multilateral financial dialogues; and exchanges with think tanks and government agencies around the world.

Contents

-  I . Policy Update
-  II . Facts & Figures
-  III . MOF Events
-  IV . Local Finance
-  V . Remarks & Opinions

I . Policy Update

1. The State Council planned new measures to boost the development of the real economy

On August 30, Premier Li Keqiang presided over the State Council executive meeting, which provided the following. First, cut or exempt property tax and urban land use tax for enterprises that have ceased production due to capacity reduction and restructuring, cut or exempt tax for investment activities associated with social security fund and basic pension insurance fund, and offer a reduced VAT rate of 3% for the agriculture-related loan interest incomes of postal savings banks. Second, from September 1, 2018 to the end of 2020, the ceiling of the VAT-exempt interest incomes of loans to single micro enterprise and individual proprietorship will be raised from 5 million RMB to 10 million RMB. Third, the interest incomes on bonds acquired by foreign institutions investing in the domestic bond market are temporarily exempted from corporate income tax and VAT. The policy is tentatively valid for three years.

2. MOF published the *Work Plan for Complete Cost Insurance and Income Insurance for Food Crops*

On August 31, MOF published the Work Plan for Complete Cost Insurance and Income Insurance for Food Crops, which provided the following. First, the pilot period is tentatively set to be from 2018 to 2020 for a total of 3 years. The pilot insurance targets are the three staple food crops of rice, wheat and corn that are related to national economy, people's livelihood and food security. Second, the insurance premium rate should be determined in accordance with the principle of breaking even and making small profit. In principle, the risk premiums (including the disaster risk reserve) should be no less than 80% and the fee surcharge no more than 20%. The pilot products shall not be set up with absolute franchise deductible, and the relative franchise deductible shall not exceed 30%. Third, on the basis that the proportion of out-of-pocket contribution by farmers is not less than 30%, the central government would subsidize 40% of the premiums for central and western regions and the northeast region, 35% for the rest of eastern region, and cancel the county-level premium subsidies.

3. MOF published the Detailed Rules for the Implementation of the Lottery Management Regulations

On September 3, MOF published the Detailed Rules for the Implementation of the Lottery Management Regulations, which provided the following. First, the lottery issuing agencies and the lottery sales agencies

should set up the general adjustment fund. After the approved suspension of lottery, the prize pool and the surplus of the adjustment fund may be transferred to the general adjustment fund. Second, with the approval of the finance authorities at the same level, the lottery issuing agencies and the lottery sales agencies may use the adjustment fund or the general adjustment fund to pay for the prize money. Third, the lottery public welfare fund is included in the budget according to the measures for administering government fund. The incomes and expenditures are administered separately, and the fund is earmarked for social welfare, sports and other social welfare undertakings. The balance shall be carried forward for use in the next year and should not be used to balance the general fiscal budget.

4. MOF published a circular on the exemption of VAT for financial institutions' interest incomes of loans to small and micro enterprises

On September 6, MOF published a circular on the exemption of VAT for financial institutions' interest incomes of loans to small and micro enterprises, which provided the following. First, from September 1, 2018 to December 31, 2020, financial institutions' interest incomes of loans to small businesses, micro enterprises and industrial and commercial proprietorships are exempted from VAT. Second, financial institutions should keep the relevant tax exemption documents for future inspection, separately calculate the interest incomes of micro loans that meet the tax

exemption conditions, and file tax returns with the competent tax authorities in accordance with the current regulations; if such interest incomes are not separately calculated, they shall not be exempted from VAT. Third, the China Banking and Insurance Regulatory Commission shall inspect the implementation of the tax exemption policy on an annual basis, and timely report the results of inspection to the finance and taxation authorities.

5. The State Council decided on the supporting measures to implement the newly revised personal income tax law

On September 6, Premier Li Keqiang presided over an executive meeting of the State Council, which provided the following. First, ensure that the basic tax deduction standard for personal income tax will be raised from 3,500 RMB to 5,000 RMB and the new tax rate table will be applied as scheduled from October 1. In the meantime, to deliver more benefits to people, clearly define the specific scope and standards for the six special deduction items of children's education, retraining, major medical care, ordinary housing loan interest, housing rent, and caring of the elderly, so that people will enjoy additional deductions in education, medical care, and pensions to ensure that the deducted taxable income threshold is significantly higher than 5,000 RMB. Second, the scope and standards for special additional deductions will be implemented as of 1 January, 2019 after soliciting opinions from the public.

6. MOF published a circular on raising the tax rebate rate for electrical and cultural exports

On September 7, MOF published a circular on raising the tax rebate rate for electrical and cultural exports, which provided the following. First, the tax rebate rate for multi-component integrated circuits, non-electromagnetic interference filters, books, newspapers and other exports is raised to 16%. The tax rebate rate for bamboo carvings, wood fans and other exports is increased to 13%. The export tax rebate rate for basalt fiber and its products, safety pins and other exports is increased to 9%. Second, this circular will come into effect from September 15, 2018. The export tax rebate rate applicable to the export goods indicated in this circular is determined by the export date shown on the declaration forms.

7. MOF published a circular on the deduction of and applicable rate for personal income tax in the fourth quarter of 2018

On September 7, MOF published a circular on the deduction of and applicable rate for personal income tax in the fourth quarter of 2018, which provided the following. First, the actual wages and salaries earned by taxpayers on and after October 1, 2018 would enjoy 5,000 RMB/month of deduction. The wages and salaries earned by taxpayers on and before September 30, 2018 would enjoy deductions according to the provisions before the revision of the tax law. Second,

the production and operation income obtained by the self-employed industrial and commercial entities, sole proprietorship enterprises and investors of natural persons in partnership enterprises in the fourth quarter of 2018 would enjoy 5,000 RMB/month of deduction. The deduction for the first three quarters remains 3,500 RMB/month.

8. The State Council decided to further cut production licenses for 14 industrial products by one third and simplify the approval process

On September 12, Premier Li Keqiang presided over an executive meeting of the State Council, which provided the following. First, abolish production licenses for 14 industrial products, and cut the number of product categories for implementing production license management from 38 to 24. In case that licenses are abolished for some products related to public health and safety as well as environmental protection, those products would be subject to compulsory certification. A positive list will be drawn up and made public. The costs for compulsory certification would, in principle, be borne by the public finance. Second, simplify the approval process for the remaining production licenses. The pre-certification product inspection organized by the issuing authority would be changed to the submission of product inspection reports by enterprises at the time of application. Third, implement “one enterprise, one license” and only issue one license for one enterprise that produces different types of products.

9. The Central Committee of CPC and the State Council published the Guiding Opinions on Strengthening the Asset and Liability Constraints of State-Owned Enterprises

On September 14, the Central Committee of CPC and the State Council published the Guiding Opinions on Strengthening the Asset and Liability Constraints of State-Owned Enterprises, which provided the following. First, classify and determine the standards for asset-liability constraints of state-owned enterprises. In principle, the average asset-liability ratio of all enterprises above designated size in the previous year is taken as the baseline. The baseline plus 5 percentage points is the warning line for the asset-liability ratio in the current year, and the baseline plus 10 percentage points is the special monitoring line for the asset-liability ratio in the current year. Second, strengthen the daily management of asset and liability constraints. The management of state-owned enterprises must prudently carry out business activities such as debt financing, investment, expenditure and external guarantees to prevent excessive accumulation of interest-bearing liabilities and contingent liabilities and ensure that the asset-liability ratio remains at a reasonable level. Third, clarify the boundaries between government debts and corporate debts. Resolutely curb the increase of local government implicit debts in the form of corporate debts.

10. The State Council decided on measures to promote the growth of

foreign trade and facilitate customs clearance

On September 18, Premier Li Keqiang presided over an executive meeting of the State Council, which provided the following. First, promote higher level of trade facilitation. This year, the customs clearance time for import and export will be cut by 1/3, and the regulatory documents for import and export will be reduced by 1/3 and customs clearance fees will also be reduced. The review and approval of import and export will be simplified. Before November 1 of this year, all the regulatory documents required to be verified at the port will fully go online and be checked during customs clearance. Second, further reduce the costs of import and export enterprises, improve the export tax rebate policy, speed up the pace of export tax rebate, reduce the export inspection rate, expand the coverage of export credit insurance, and encourage financial institutions to increase export credit insurance financing and export tax refund account pledge financing as well as increase credit to enterprises engaging in foreign trade, especially small and medium-sized ones.

11. The Customs Tariff Commission of the State Council published a notification on imposing tariffs on 60 billion USD worth of goods imported from the United States

On September 18, the Customs Tariff Commission of the State Council published a notification on imposing tariffs on 60 billion USD worth of goods

imported from the United States, which provided the following. In accordance with the Law of the People's Republic of China on Foreign Trade, the Regulations of the People's Republic of China on Import and Export Tariffs, as well as the basic principles of international laws, and with the approval of the State Council, the Customs Tariff Commission of the State Council decided to impose 10% or 5% tariffs on 5207 tax items of U.S. products worth 60 billion. The tariff will enter into effect from 12:01, September 24, 2018. If the U.S. insists on further increasing the tariff rate, the Chinese side will respond accordingly and relevant measures will be announced separately.

12. MOF published the Measures for the Administration of Special Reward and Subsidy Funds for Structural Adjustment of Industrial Enterprises

On September 19, MOF published the Measures for the Administration of Special Reward and Subsidy Funds for Structural Adjustment of Industrial Enterprises, which provided the following. First, the special funds include two parts: special funds for supporting local governments and special funds for supporting central enterprises. The special funds for supporting local governments will be disbursed by the central government to the provinces (autonomous regions and municipalities) through specific-purpose transfer payments; the special funds for supporting central enterprises will be disbursed by the central finance authorities through the state-owned capital operation budget.

Second, the special funds consist of two parts: the basic funds and the tiered funds, with the former accounting for 80% of the total in a given year and the latter accounting for the remaining 20%.

13. MOF published a circular on organizing the application for the demonstration cities in urban black and odorous water treatment in 2018

On September 21, MOF published a circular on organizing the application for the demonstration cities in urban black and odorous water treatment in 2018, which provided the following. First, MOF, the Ministry of Housing and Urban-Rural Development and the Ministry of Environment will determine the short-listed cities through competitive evaluation methods. The central government will grant a fixed amount of subsidies for the short-listed cities in 2018, with each receiving 600 million RMB, and the funds will be allocated annually. Second, the short-listed cities will formulate a three-year urban black and odorous water treatment plan, set overall and annual performance targets, make coordinated use of the central fiscal funds and the local funds to focus on the control of pollution at source, ecological restoration, water quality preservation, sponge system construction, water quality monitoring capability improvement, and other key tasks and links of black and odorous water treatment, and establish and improve long-term mechanisms to ensure that treatment tasks are completed on schedule.

14. MOF published a circular on increasing the pre-tax deduction ratio of R&D expenses

On September 21, MOF published a circular on increasing the pre-tax deduction ratio of R&D expenses. First, the R&D expenses incurred in the R&D activities of enterprises will enjoy 75% pre-tax deduction of expenses in addition to the actual deduction from January 1, 2018 to December 31, 2020, provided that intangible assets are not formed and included into the current profits and losses; if intangible assets are formed, 175% of the costs of intangible assets will be amortized before tax during the abovementioned period. Second, other policy measures and management requirements for enterprises to enjoy the pre-tax deduction policy for R&D expenses shall be implemented in accordance with the provisions of the Circular of the Ministry of Finance, the State Administration of Taxation, and the Ministry of Science and Technology on Improving the Pre-tax Deduction Policy for Research and Development Expenses.

15. CPC Central Committee and the State Council published the Opinions on the Comprehensive Implementation of Performance-based Budget Management

On September 25, the CPC Central Committee and the State Council published the Opinions on the Comprehensive Implementation of Performance-based Budget Management, which provided the following. First, implement performance-based management of government budget, and subject

government revenue and expenditure budgets at all levels to performance-based management. Second, establish a performance evaluation mechanism. The finance authorities at all levels should strengthen the review of new major policies and project budgets, and if necessary, organize third-party agencies to independently conduct performance evaluation. The results of review and evaluation would serve as important reference for budgetary arrangements. Third, improve performance monitoring. Government at all levels and all departments should implement “dual monitoring” on the achievement of performance targets and budget implementation progress, and correct problems, if identified, in time to ensure that performance targets are met on schedule and in a quality way. Fourth, strengthen the performance management work assessment. Government at all levels should incorporate budget performance results into government performance and cadre performance evaluation system as important reference for the selection and appointment of senior officials and the assessment of civil servants.

16. The State Council decided to promote the faster implementation of foreign-invested projects

On September 26, Premier Li Keqiang presided over the State Council executive meeting, which provided the following. First, deepen the reform of “streamlining administration, delegating powers and providing better services”. Treat foreign companies and domestic ones equally except for the items on the negative list, introduce uniform market access

standards for enterprises of all types of ownership, and implement online record filing system for investment management. Include eligible foreign-funded projects into the scope of major construction projects, or into the relevant industrial plans in a faster manner consistent with due procedures. Support the approval over the use of land and sea, speed up the environmental assessment approval, reduce logistics costs and promote faster implementation of projects. Second, increase the scope of encouraged foreign investment, and extend the policy of temporary waiver of withholding income tax for reinvestment of foreign companies to all non-prohibited projects and fields. Third, vigorously protect intellectual property rights and further regulate government supervision and law enforcement.

17. MOF published a circular on the tax policy for the investment of basic pension insurance fund

On September 27, MOF published a circular on the tax policy for the investment of basic pension insurance fund, which provided the following. First, all the interest and interest-like income from the provision of loan services as well as the income from the transfer of financial goods earned by the Social Security Fund and the pension fund investment and management agencies as they make investment with the pension funds within the scope approved by the State Council will be exempted from VAT. Second, the income that is derived from investment with the pension funds and belongs to the investment income of pension funds as the Social Security Fund and the

pension fund investment and management agencies make investment within the scope approved by the State Council will not be taxed as corporate income tax; the income earned by pension fund investment and management agencies and pension fund custodian agencies as they manage pension funds will be subject to corporate income tax in accordance with tax laws.

18. MOF published a circular on the tax policy for the retail export goods in the cross-border e-commerce comprehensive pilot zone

On September 28, MOF published a circular on the tax policy for the retail export goods in the cross-border e-commerce comprehensive pilot zone, which provided the following. First, the leading group office and the competent commerce authorities in the pilot zone should promote the communication and cooperation and actively implement related policies. Accelerate the establishment of an e-commerce export statistics monitoring system, and promote the healthy and rapid development of cross-border e-commerce. Second, the General Administration of Customs should regularly transmit the electronic information on the e-commerce export commodity declaration list to the State Administration of Taxation. The tax authorities of the pilot zones should strengthen the tax exemption management of export goods according to the electronic information of the export commodity declaration list drawn up by the State Administration of Taxation. The circular shall be implemented from October 1, 2018, and the specific date shall be subject

to the export date indicated on the export commodity declaration list.

19. MOF published a circular on the tax policy for the investment of the National Social Security Fund

On September 29, MOF published a circular on the tax policy for the investment of the National Social Security Fund, which provided the following. First, in the investment process of the Social Security Fund and the Social Security Fund managers, all the interest and interest-like income from the provision of loan services as well as the income from the transfer of financial goods will be exempted from VAT. Second, the direct equity investment income and equity investment fund income obtained by the Social Security Fund will not be taxed as corporate income tax. Third, the transfer of equity in non-listed companies by the Social Security Fund and the Social Security Fund managers will be exempted from stamp duties.

20. MOF published the Opinions on Implementing the Strategy of Rural Revitalization

On September 29, MOF published the Opinions on Implementing the Strategy of Rural Revitalization, which provided the following. First, prioritize spending on agriculture and rural areas. Step up public financial support for agriculture, farmers and rural areas, improve funding system, innovate

investment and financing mechanisms, accelerate the formation of a diverse investment mechanism featuring the cooperation of government, financial institutions and private sector, ensure the continuous increase of public spending, and ensure that fiscal spending is compatible with the objectives and tasks of rural revitalization. Second, develop innovative multi-channel fund raising mechanism for rural revitalization. Implement the targeted subsidy policy for rural financial institutions, actively give play to the role of the National Financing Guarantee Fund, and encourage financial institutions to serve agriculture, farmers and rural areas.

II. Facts & Figures

1. China's PMI in August was 51.3%

The data published by the National Bureau of Statistics(NBS) on August 31 showed that China's PMI in August was 51.3%, up by 0.1 percentage point month on month. In a breakdown of enterprises, PMI was 52.1% for large-sized ones, down by 0.3 percentage point month on month; 50.4% for medium-sized ones, up by 0.5 percentage point month on month; and 50.0% for small-sized ones, up by 0.7 percentage point month on month. In specific terms, the production index was 53.3%, up by 0.3 percentage point month on month; the new order index was 52.2%, down by 0.1 percentage point month on month; the raw material inventory index

was 48.7%, down by 0.2 percentage point month on month; the employee index was 49.4%, up by 0.2 percentage point month on month.

2. China's fiscal expenditures on social security and employment in the first half of 2018 were 1.648218 trillion RMB

The data published by MOF on September 4 showed that China's fiscal expenditures on social security and employment in the first half of 2018 were 1.648218 trillion RMB, up by 11.3% year on year. Among them, the central government's expenditures were 60.798 billion RMB, a year-on-year increase of 10.6%; local government's expenditures were 1.58742 trillion RMB, a year-on-year increase of 11.4%. The fiscal subsidies for the basic old-age insurance fund were 641.686 billion RMB, up by 12.7% year on year; the retirement expenditures of government-sponsored institutions were 473.688 billion RMB, up by 15.2% year on year; the expenditures on employment subsidies were 40.747 billion RMB, down by 7.8% year on year; the expenditures on minimum living allowances were 86.51 billion RMB, down by 6.4% year on year; and the expenditures on retirement of servicemen were 34.532 billion RMB, up by 5.6% year on year.

3. China's CPI rose by 2.3% year on year in August

The data released by NBS on September 10 showed

that China's CPI rose by 2.3% year on year in August, and up by 0.7% month on month, among which, CPI rose by 2.3% year on year and by 0.6% month on month in urban areas, and rose by 2.3% year on year and by 0.8% month on month in rural areas. CPI went up by 1.7% year on year and by 2.4% month on month for food; went up by 2.5% year on year and by 0.2% month on month for non-food; increased by 2.1% year on year and by 0.8% month on month for consumer goods; increased by 2.6% year on year and by 0.3% month on month for services.

4. China's PPI rose by 4.1% year on year in August

The data released by NBS on September 10 showed that China's PPI in August rose by 4.1% year on year, and up by 0.4% month on month. The price of the means of production jumped by 5.2% year on year, and up by 0.5% month on month; specifically, the figure surged by 12.1% year on year and by 0.6% month on month in the extractive industry; rose by 7.8% year on year and by 0.6% month on month in the raw material industry; went up by 3.5% year on year and by 0.4% month on month in the processing industry. The price of the means of consumption rose by 0.7% year on year, and by 0.3% month on month; specifically, the figure rose by 0.7% year on year and by 0.3% month on month for food; increased by 1.1% year on year and by 0.4% month on month for apparel; rose by 1.2% year on year and by 0.3% month on month for daily necessities; and rose by 0.2% year on year and by 0.2% month on month for durable consumer goods.

5. Revenue under China's general public budget increased by 4% in August

The data released by MOF on September 12 showed that revenue under China's general public budget totaled 1.1077 trillion RMB in August, up by 4% year on year, among which, revenue at the central government level was 516.6 billion RMB, up by 1.2% year on year; revenue at the local government level was 591.1 billion RMB, up by 6.6% year on year. Tax revenues totaled 950.8 billion RMB, up by 6.7% year on year; non-tax revenues totaled 156.9 billion RMB, down by 10.1% year on year. Expenditure under China's general public budget was 1.5137 trillion RMB, up by 3.3% year on year, among which, expenditure at the central government level was 251.3 billion RMB, up by 9.8% year on year; expenditure at the local government level was 1.2624 trillion RMB, up by 2.1% year on year.

6. The value-added of industrial enterprises above designated size went up by 6.1% year on year in August

The data published by NBS on September 14 showed that the value-added of industrial enterprises above designated size went up by 6.1% year on year and 0.52% month on month in August. Specifically, there was an increase of 2.0% year on year in the mining sector, an upswing of 6.1% in the manufacturing sector, and an upsurge of 9.9% in the electricity, heating, gas and water sector. By enterprises of different ownership, there was an

increase of 5.6% year on year in state-controlled enterprises, a decrease of 1.2% in collectively owned enterprises, an increase of 6.4% in joint-stock enterprises, and an upsurge of 4.9% in foreign-invested and Hong Kong, Macau and Taiwan enterprises. By regions, there was an increase of 5.5% year on year in the eastern region, an increase of 7.6% in the central region, an increase of 7.2% in the western region, and an increase of 4.3% in the northeastern region.

7. China's fixed asset investment (excluding rural households) increased by 5.3% year on year from January to August

The data published by NBS on September 14 showed that China's fixed asset investment (excluding rural households) totaled 41.5158 trillion RMB in the first 8 months of 2018, up by 5.3% year on year. By industries, investment in the primary industry was 1.4505 trillion RMB, up by 14.2% year on year; investment in the secondary industry was 15.4602 trillion RMB, up by 4.3% year on year; and investment in the tertiary industry was 24.6051 trillion RMB, up by 5.5% year on year. By regions, investment in the eastern region rose by 5.7% year on year; investment in the central region rose by 9.2% year on year; investment in the western region rose by 2.2% year on year; and investment in the northeastern region increased by 1.7% year on year. By types of registered enterprises, the investment of domestic firms was up by 5.8% year on year; the investment of Hong Kong, Macau and Taiwan

firms went down by 6.8% year on year; and the investment of foreign firms was up by 3.6% year on year.

8. China's retail sales of consumer goods went up by 9.0% in nominal terms in August

The data published by NBS on September 14 showed that retail sales of consumer goods in August totaled 3.1542 trillion RMB, up by 9.0% year on year in nominal terms. The retail sales of urban areas totaled 2.7169 trillion RMB, up by 8.8% year on year; and the retail sales of rural areas amounted to 437.3 billion RMB, up by 10.2%. In addition, catering revenues amounted to 351.6 billion RMB, up by 9.7% year on year; and retail sales of goods reached 2.8026 trillion RMB, up by 8.9% year on year.

9. China's lottery sales totaled 54.641 billion RMB in July

The data released by MOF on September 17 showed that nationwide lottery sales in July were 54.641 billion RMB, up by 61.9% year on year. The welfare lottery sales were 19.109 billion RMB, up by 9.7% year on year. The sports lottery sales were 35.532 billion RMB, up by 117.5% year on year. By type, the lotto lottery sales were 23.403 billion RMB, up by 9.6% year on year; the toto lottery sales were 25.708 billion RMB, up by 279.4% year on year; the instant lottery sales were 1.576 billion RMB, down by 11.0% year on year; the

video lottery sales were 3.953 billion RMB, up by 3.0% year on year; and the keno lottery sales were 11 million RMB, down by 46.3% year on year.

10. China issued 883 billion RMB of local government bonds in August

The data published by MOF on September 21 showed that 883 billion RMB of local government bonds were issued in August, among which, 356.4 billion RMB were general bonds and 526.6 billion RMB were special bonds. In terms of the purposes, 512.7 billion RMB were new bonds and 370.3 billion RMB were swapped bonds or refinanced bonds (used to repay part of the maturing principals of local government bonds). As of the end of August 2018, nationwide outstanding local government debts amounted to 17.6684 trillion RMB, a figure within the limit imposed by the National People's Congress, among which, general debts were 10.932 trillion RMB, and special debts were 6.7364 trillion RMB; government bonds were 17.4118 trillion RMB, and the stock of government debts that are not in the form of government bond amounted to 256.6 billion RMB.

11. The operating incomes of SOEs increased by 10.3% from January to August

The data published by MOF on September 26 showed that the operating incomes of SOEs totaled 37.00347 trillion RMB from January to August, up by 10.3% year on year, among which, the figure for central

SOEs was 21.61975 trillion RMB, up by 10.6% year on year, and the figure for local SOEs was 15.38372 trillion RMB, up by 9.9% year on year. The operating costs of SOEs totaled 35.57395 trillion RMB, up by 9.7% year on year, among which, the figure for central SOEs was 20.51098 trillion RMB, up by 9.9% year on year, and the figure for local SOEs was 15.06297 trillion RMB, up by 9.3% year on year. The profits of SOEs totaled 2.30319 trillion RMB, up by 20.7% year on year, among which, the figure for central SOEs was 1.50051 trillion RMB, up by 21.2% year on year, and the figure for local SOEs was 802.68 billion RMB, up by 19.7% year on year.

12. China's lottery sales totaled 41.816 billion RMB in August

The data released by MOF on September 27 showed that nationwide lottery sales in August were 41.816 billion RMB, up by 19.2% year on year. The welfare lottery sales were 17.783 billion RMB, up by 1.8% year on year. The sports lottery sales were 24.033 billion RMB, up by 36.6% year on year. By type, the lotto lottery sales were 22.232 billion RMB, up by 5.2% year on year; the toto lottery sales were 14.148 billion RMB, up by 68.3% year on year; the instant lottery sales were 1.564 billion RMB, down by 9.6% year on year; the video lottery sales were 3.856 billion RMB, up by 1.8% year on year; and the keno lottery sales were 16 million RMB, down by 1.2% year on year.

13. The total profits of industrial enterprises above the designated

size in China amounted to 4.42487 trillion RMB from January to August

The data published by NBS on September 27 showed that from January to August, the profits of industrial enterprises above the designated size in China totaled 4.42487 trillion RMB, up by 16.2% year on year. By types of ownership, the figure stood at 1.3473 trillion RMB for state-controlled ones, up by 26.7% year on year; 13.92 billion RMB for collectively-owned ones, up by 3.2%; 3.13239 trillion RMB for joint-stock ones, up by 20.1%; 1.09064 trillion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, up by 7.6%; and 1.14856 trillion RMB for private ones, up by 10%. By sectors, the figure stood at 388.05 billion RMB for the mining sector, up by 53.2% year on year; 3.73823 trillion RMB for the manufacturing sector, up by 13.5%; 298.59 billion RMB for the electricity, heating, gas and water production and supply sector, up by 13.5%.

III . MOF Events

1. On August 28, Finance Minister Liu Kun met with Giovanni Tria, the Italian Minister of Economy and Finance.
2. On August 31, Finance Minister Liu Kun and Taro Aso, the Japanese Deputy Prime Minister and Finance Minister, co-chaired the seventh China-Japan Finance Dialogue.

3. On September 4, Finance Minister Liu Kun met with Richard Martinez, the Ecuadorian Minister of Economy and Finance.

4. On September 6, Finance Minister Liu Kun met with Ghana's Finance Minister Ken Ofori-Atta.

5. On September 6, Vice Finance Minister Zou Jiayi attended and addressed the 4th Investing in Africa Forum.

6. On September 11, Finance Minister Liu Kun met with Luxembourg's Finance Minister Pierre Gramegna.

7. On September 13, Finance Minister Liu Kun met with Simon Zerpa, the Venezuelan Minister of Economy and Finance.

8. Recently, Vice Finance Minister Zou Jiayi met with Hafez Ghanem, the World Bank Vice President for Africa.

9. On September 17, Finance Minister Liu Kun met with Valdis Dombrovskis, Vice President of the European Commission.

10. On September 20, Vice Finance Minister Zou Jiayi met with Kamath, the President of the New Development Bank, in Shanghai.

11. On September 21, Vice Finance Minister Liu Wei met with Tomasz Husak, the Head of EU Cabinet.

12. On September 25, Vice Finance Minister Zou Jiayi met with Gabriel Makhoul, the Treasury Secretary of New Zealand.

IV. Local Finance

1. Finance authorities of Maanshan City, Anhui Province vigorously supported the implementation of projects related to people's livelihood

According to the news released by the Finance Department of Anhui Province on September 5, Maanshan City, Anhui Province has fully promoted the implementation of people-centered projects to improve people's livelihood. First, plan ahead. The government office dedicated to improving people's livelihood and started developing the 2018 plan for conducting the work related to the people's livelihood as early as the second half of 2017. At the beginning of 2018, in accordance with the relevant work arrangements of the province and city, the office convened the heads of finance bureaus of counties and districts to plan the work for 2018 and visited relevant departments and counties to discuss the work for 2018 and keep track of work progress. Second, implement swiftly. According to the provincial government's Circular on the Implementation of 33 Projects Related to People's Livelihood in 2018 and the 2018 Accountability Letter for Projects Related to People's Livelihood signed with the city government, the office consulted with relevant departments and formulated the Circular on Implementing 33 Projects Related to People's Livelihood in 2018. The circular

was reviewed and approved at the 7th executive meeting of the city government on May 11. Third, solidly improve the mechanisms. In line with the latest assessment requirements of the province and the city, the office timely developed the *Key Points for Work Related to People's Livelihood in 2018* and the *Measures for the 2018 Assessment of Projects Related to People's Livelihood in Maanshan City* and submitted to the city government for approval. Fourth, step up funding support. The finance authorities always regard the spending on areas related to people's livelihood as the priority expenditure, carefully compile the budget for such purpose, tilt the limited funds to areas related to people's livelihood to the extent possible, and give priority to the mobilization and disbursement of funds for people's livelihood. Fifth, meticulously advance the work related to people's livelihood. The office reports to the city Party committee and government on a monthly basis and advance the work in a meticulous manner. Sixth, widely enhance the publicity of the work. The office continues to use newspapers, radio, television, internet, telecom, and bulletin board to enhance the publicity and disclosure of projects related to people's livelihood in 2018.

2. Finance authorities of Kunshan city, Jiangsu Province took multiple measures to fully support the high-quality development

According to the news released by the Finance Department of Jiangsu Province on September 6, the finance authorities of Kunshan city, in line with the

characteristics of Kunshan's economy and society, have moved forward reform and innovation to lend full support to the development of Kunshan. First, promote all-round and multi-field connectivity with Shanghai. The finance authorities of Kunshan encouraged all districts (towns) and enterprises to seize the opportunity of Shanghai's development to strengthen the cooperation with Shanghai in terms of industrial innovation and environmental improvement, promote the optimal allocation of resources such as industries, talents and platforms, and actively bring in science and technology resources of Shanghai so as to leverage the advantage of proximity to Shanghai in more areas. Second, remove the constraints of the factors. Recently, Kunshan introduced the *Several Opinions on Providing Fiscal Support to Accelerate Innovation and Transformation for High-quality Economic Development*, in order to accelerate the transformation of growth drivers. Kunshan will further increase fiscal support and set up special funds, and no less than 2 billion RMB will be invested each year. Third, remove the bottlenecks of high-quality development. With the rapid development of Kunshan's economy and society, Kunshan finance authorities are also faced with difficulties and challenges. This requires the finance officials to make full use of various think tanks including the China Academy of Fiscal Science, and constantly explore, innovate, practice, and seek breakthroughs.

3. Finance authorities of Chenzhou City, Hunan Province took multiple measures to advance the reform

of “streamlining administration, improving regulation and providing better services”

According to the news released by the Finance Department of Hunan Province on September 10, since 2017, the Finance Bureau of Chenzhou City, Hunan Province has introduced a number of reforms in accordance with the reform requirements of “streamlining administration, improving regulation and providing better services” to continuously improve the level of government service. First, highlight the “streamlining of administration” and focus on improving the efficiency of fiscal work. (1) Delegate powers to the purchaser. The government procurement catalogue was revised and the agreement-based supply and fixed-point supplier system were abolished. Some items with high specialization, low procurement frequency and small procurement scale were removed from the catalogue. Second, delegate powers to the project owners. Since this May, the finance authorities of Chenzhou City have increased the threshold for fiscal evaluation from 100,000 RMB to 500,000 RMB. Third, delegate powers to the competent authorities. The approval of the allocation of special funds was decentralized, and the screening, inspection, review and application of projects as well as the fund allocation plans were adjusted as the competent authorities themselves are now responsible for project application and the revision of fund allocation plans without the need to turn to finance authorities. Second, focus on improving the level of fiscal supervision. (1) Harden budget constraints. Strictly strengthen budget management in terms of budget preparation, budget

execution, budget adjustment, avoiding excesses and strengthening budget supervision. (2) Standardize the account reporting procedures. The *Opinions on Deepening of the Reform of “Streamlining Administration, Improving Regulation and Providing Better Services” in the City-level Centralized Treasury Payment System* was issued to clarify that the budget unit bears the responsibility as the financial entity. (3) Optimize the agent bookkeeping procedures. The procedures for setting up accounting and bookkeeping agents were further simplified, with the conditions for the establishment reducing from four to three. Third, focus on developing innovative approaches to fiscal services. (1) Bring in third-party credit information companies to establish credit information files. (2) Vigorously implement the paperless processing of payment. Actively implement the electronic centralized treasury payment and explore the establishment and operation of the city-level electronic centralized treasury payment management system. (3) Vigorously promote the application of the electronic fiscal evaluation service platform. The Finance bureau of Chenzhou City established an electronic fiscal review management service platform that links with the city government electronic procurement management system.

4. The Finance Department of Guangdong Province introduced performance index database with Guangdong characteristics

According to the news released by the Finance Department of Guangdong Province on September

12, it issued the *Guangdong Provincial Budgetary Performance Index Database* to the finance authorities at all levels in Guangdong and all the provincial departments. The index database contains a total of 2589 performance indexes, forming a relatively complete index system and providing a strong basis for the full implementation of performance management.

In terms of content, the index database takes into account the government revenue and expenditure classification, the main work portfolio of each department and the direction of the use of all special funds. There are 20 categories of indexes, including general indexes and sectoral indexes. Each category is divided into three levels, among them, the first-level indexes are sub-divided into output and benefit indexes, and the second-level indexes are sub-divided into quantity, timeliness, quality, cost, social benefit, economic benefit, and ecological benefit indexes. The above two indexes adopt the classification of indexes commonly used at MOF. The third-level indexes are detailed department-specific and sector-specific indexes.

In terms of the highlights, the first is to shift from qualitative information to quantitative data; the second is to shift from the self-use of information by the finance department to the sharing of information among various departments at all levels; the third is to shift from static compilation to dynamic management; the fourth is to shift from single-direction usage to comprehensive application; the fifth is to shift from “human judgment” to “digital application” in terms of performance evaluation.

With respect to application, first, when the

performance targets are reviewed during the budget preparation stage, it is made clear that the budget unit should rely on the index database to compile performance targets. Second, when performance monitoring and performance evaluation are carried out during budget execution, the finance department should rely on the index database to track and evaluate the implementation and completion of performance targets.

With respect to operation, practicability is the purpose of the development of performance index database in Guangdong Province. The current important work carried out in Guangdong Province suggests that the performance index database is highly practical: first, available indexes can be directly extracted through the type-based search; second, a set of functional indexes can be formed through keyword search.

5. Finance authorities of Shaanxi Province provided targeted financial assistance to promote educational fairness

According to the news released by the Finance Department of Shaanxi Province on September 18, finance authorities of Shaanxi Province, with the goal of “full coverage of financial assistance for students from poor families”, supported the development of financial assistance mechanism featuring targeted assistance so as to implement the people-centered policies of the Party and the state. First, accurately determine the recipients of subsidy. Support the establishment of Shaanxi Information Management

System for Targeted Assistance and gather information on documented population from poverty alleviation authorities, student information from education authorities, and information on students who receive financial assistance from the National Information System for Student Financial Assistance so as to accurately identify the documented students and realize the shift from “people chasing policies” to “policies chasing people”. Second, accurately determine the financial support to meet the needs of students at different stages. A policy system combining universal subsidies, financial relief, rewards and guiding subsidies was constructed. Third, accurately determine the standards of financial assistance to ensure that students complete their studies. Comprehensively consider factors such as students’ learning level and economic and social development to determine the standards of assistance at different stages and form a system of financial assistance standards that increases gradually from kindergarten to university. Fourth, accurately determine the method of financial assistance and maximize policy effects. Combine financial assistance with dietary assistance for students. Fifth, accurately determine the distribution plan to ensure that financial assistance capacity of different regions is basically equal. Cooperate with education and other departments to take stock of the geographical distribution and financial status of students from poor families and formulate a reasonable fund allocation plan to avoid the phenomenon of “uneven distribution”.

6. Chengdu City of Sichuan Province leveraged proactive fiscal policies

to promote high-quality economic growth

According to the news released by the Finance Department of Sichuan Province on September 19, since this year, the Finance Bureau of Chengdu City has continued to give play to the positive role of fiscal policies and promoted high-quality development as a fundamental requirement for formulating fiscal policies and implementing macroeconomic regulation. First, strengthen income management and consolidate the basis for high-quality fiscal development and income increase. Improve the coordination mechanism involving finance, tax and banking authorities, enhance the analysis of income performance, strengthen the collection of information on major taxpayers, convene a meeting of the top 20 tax-paying enterprises in the city, actively solve the difficulties faced by enterprises in their development, and regularly analyze the top 1000 tax-paying enterprises. Second, comprehensively deepen reforms and establish and improve the institutional environment for high-quality fiscal development. Study and improve the fiscal and tax benefit sharing mechanism for the transfer of non-Chengdu enterprises’ headquarters to Chengdu, and step up government’s procurement of services from the private sector. Make systematic planning and concentrate efforts on key areas to advance fiscal reform and reshape the fiscal management pattern. Third, support industrial development and promote the establishment of a modern economic system. Actively give play to the leading role of Chengdu in building a modern industrial system with Sichuan’s distinctive advantages, and direct more fiscal funds

to industrial development. In view of the large gap between the supply of and demand for the funding of major industrial projects, step up research on the innovative use of fiscal funds for attracting major projects to Chengdu. Fourth, develop new forms of economy and foster new drivers of growth, and enhance the role of innovation as the engine of growth. Focus on six forms of economy and seven application scenarios and improve supportive fiscal policies. Increase fiscal spending on science and technology, advance the development of industrial research institutes, and promote the commercialization of scientific and technological findings and industrialization in Chengdu.

7. Finance Bureau of Siping City in Jilin Province took three measures to advance the “One Trip Only” reform

According to the news released by the Finance Department of Jilin Province on September 25, in line with the overall arrangement and plan of the Siping Party Committee and Government on promoting the “One Trip Only” reform, the Siping Finance Bureau has focused efforts on raising awareness, streamlining processes, optimizing services and making targeted efforts. As a result, notable effects of reform have begun to emerge.

First, enhance awareness and understanding. Several sessions of the bureau Party committee and executive committee have been held to study the spirit and requirements of the relevant meetings on “One Trip Only”. The main leaders of the bureau

required all the cadres and staff to implement the “One Trip Only” reform from the perspective of maintaining political integrity. Through learning and mobilization, the reform objectives, division of responsibilities and specific measures were clarified, and the responsibilities of the lead supervisors and departments were also clarified. All the cadres and staff have aligned their thoughts, raised their awareness and built up their consensus.

Second, streamline the processes. The bureau Party committee canceled the signing process, streamlined the complicated examination and approval processes and delegated approval authority to ensure the smooth progress of the “One Trip Only” reform. All departments of the bureau were required to sort through the various examination and approval items and improve the procedures for such matters as the review of the application for bookkeeping, public bidding confirmation for the centralized government procurement, general VAT refund, the issuance of the Expense Invoices of Administrative Institutions in Jilin Province, the opening of bank accounts for administrative institutions, and the exit from the treasury. All the matters that previously required handling before a deadline are now subject to immediate handling.

Third, improve the quality of service. For people’s convenience, it gave full play to the role of the government service network and the city finance bureau portal, and vigorously promoted the model featuring “online search, telephone inquiry, and one window handling”. The website and telephone inquiry about the processes enabled the

masses, enterprises, government departments and administrative institutions to clearly understand the conditions and requirements for handling matters. The handling of matters was put online through the “Government Procurement System” and the “Public Bidding Confirmation for the Collective Government Procurement”, enabling people to complete the approval processes without leaving home.

8. Finance Bureau of Weihai of Shandong Province took multiple measures to provide strong financial support for the transition of growth drivers

According to the news released by the Finance Department of Shandong Province on September 26, Finance Bureau of Weihai has actively used innovative ideas and diverse means on the basis of making effective use of special funds, in order to provide strong support for the transition of growth drivers.

First, improve the system and mechanisms to invigorate the development of districts and cities. (1) Earmark 20 million RMB of subsidies per year for Rushan City and prioritize the spending of industrial support funds and special funds on science and technology and sea utilization. (2) Earmark 20 million RMB of subsidies per year for Wendeng District and support Wendeng District to issue special bonds and promote the use of PPP model. (3) Separately account for the fiscal revenues and expenditures of the Nantai New District. The general public budget revenues

are shared with Weihai City and Weihai’s share of revenues will be returned to Nantai New District in 5 years. (4) Separately account for the finance of the comprehensive bonded area. Weihai will provide financial support for institutional operation and investment promotion, and provide subsidies for PPP projects and industrial development.

Second, develop innovative investment and financing mechanisms to attract private capital investment. (1) Give play to the role of the government guiding fund. Set up the Guiding Fund Decision-making Committee to further strengthen the management of city-level government guiding fund. (2) Increase investment in special funds. Set up a special fund worth 50 million RMB for the transition of growth drivers and deploy investment subsidies and loan interest subsidies to support 116 key industrial projects in the project pipeline for the transition of growth drivers. (3) Actively promote the application of PPP model. Strengthen PPP project review, actively carry out project promotion, and build a win-win platform for cooperation between financial institutions and project implementing agencies.

Third, actively secure support from superiors and step up funding guarantee. (1) Make good use of tax incentives. Work in conjunction with the tax authorities to comprehensively sort through the preferential tax policies for the transition of growth drivers, strengthen policy publicity and implementation. (2) Secure local government bond funds. Maintain close communication with the Shandong Provincial Finance Department and actively secure the local government bond quotas. (3)

Secure funds from higher-level government. Work in conjunction with relevant departments to select a number of high-quality industrial projects, as well as public service platforms, entrepreneurship and innovation demonstration bases and infrastructure construction projects, and actively recommend them to higher-level government to obtain financial support.

V. Remarks and Opinions

1. Liu Shangxi: invisible debt risks cannot be addressed overnight, and the key lies in making effective use of funds raised from debts

In his recently published article, Liu Shangxi, Director General of the China Academy of Fiscal Science, said that China's current risks are wide-ranging and interrelated through the creditor-debt relationship. The risks of businesses in the real economy and local government hidden debt risks are essentially the balance sheet risks. To resolve risks, we must look at not only the problem at the surface, but also the whole and overall risks and the contagion of risks in various fields. If separate and disconnected efforts are made to prevent and mitigate risks, huge operational risks may be triggered. In this regard, we need to guide risk prevention and control efforts with innovative and fresh thinking.

At present, local government debts are like an iceberg, above the water are explicit debts, while below the water are hidden debts. The danger is self-evident, and may rise significantly in the case of abrupt debt control. According to the local government debt emergency response plan published by the State Council in 2016, even as some cities and counties have reached the emergency level of launching the "fiscal consolidation plan", no one wants to be the first domino to fall under the current accountability mechanism. At the same time, the multi-departmental efforts to curb the growth of hidden debts with hasty administrative approach may detonate the bomb of risks in advance.

First, local hidden debts are mainly contingent debts. Local hidden debts mainly include three categories: (1) debts incurred by construction, such as debts of investment and financing platforms and debts incurred by shanty town renovation; (2) debts incurred by consumption, mainly pension gap; (3) debts incurred by local policy-based financing guarantee, such as bridge loans and bank-government guarantee. From a legal point of view, most of these debts are manifested as the debts of economic legal persons and do not belong to the direct local government debts. However, they are directly related to government behavior, and once the debt repayment crisis triggers a chain reaction, the government is bound to assume responsibility for bailout.

Second, the large amount of contingent debts is caused by the indiscriminate risk-sharing system. After the rectification of the local government debt issue following the idea of "opening the front

door and blocking the back door”, large amount of contingent debts are still generated, which indicates that the indiscriminate risk-sharing system remains. This is due to the insufficient innovation of institutional mechanisms. From the perspective of risks, the institutional arrangement must not only clarify the responsibility for risks, but also have an inherent risk prevention mechanism.

Third, debts are not equal to risks, and the risks lie in the inefficient use of debts. The degree of debt risks is not determined by the size of debts, but the repayment capacity in the future. The repayment capacity is fundamentally contingent on how funds raised from debts are used and whether they are used effectively. Therefore, to prevent and control hidden debt risks, in the short term, we must control the increase of debts, balance debt growth and repayment capacity, and maintain a dynamic match between the two. In the medium and long term, the key is to make good use of funds raised from debts to create a virtuous cycle between debt and debt-bearing capacity.

2. Jia Kang: the long-term mechanism for the healthy development of real estate market hinges upon basic institutional building

Jia Kang, chief economist of China Academy of New Supply-side Economics, said that the recent Politburo meeting once again stressed that it is necessary to resolutely curb the increase of housing price and build a long-term mechanism for the healthy development of real estate market. We need to understand the spirit

of the CPC Central Committee and do a good job in building a long-term mechanism. To this end, we must pay full attention to and thoroughly understand the concept of basic institutional building emphasized at the Central Economic Work Conference in the previous two years. The long-term mechanism should be based on the hard work of basic institutional building which includes at least four aspects:

First, the land system. Real estate is the immovable asset resulting from land development. China will still see a period of rapid urbanization in the next 20 years. In the process of supporting hundreds of millions of people to move to cities, it is necessary to first have land before solving the problem of housing. Chongqing’s “land ticket system” under which farmers are encouraged to reclaim land and enabled to share in the benefits of urbanization as well as the land stockpiling system under which the government cooperates with jurisdictions for land development and planning are innovative practices that may offer valuable experience.

Second, the housing system. In the next 20 years or even longer, we must clearly understand that we cannot only talk about commercial housing and the market track, and we must properly coordinate the protection track and the market track.

Third, the investment and financing system. The distinctive features of the investment and financing system are reflected in the development of land and the provision of real estate. The required investment is sizable and often involves a long cycle. It should include commercial finance, policy finance, and PPP.

All of the above three basic systems are faced with the urgent need of deepening reform.

Fourth, the property tax. The central “60 decision” emphasized that on the basis of the original pilot program, legislation will be further accelerated and the real estate tax reform be advanced in due course. Property tax is imperative yet difficult. The key is to build consensus through legislation and seek the largest common denominator. Of course, it is also necessary to systematically reform other taxes and fees related to real estate. After the passage of law, we must fully authorize localities to implement it in line with different local conditions, rather than applying a one-size-fits-all approach. A very important part of the real estate tax system is how the tax exemption should be handled. It is not possible to simply copy the US collection model and we must offer the first unit deduction. In the legislative process, we may offer tax exemption for the first unit of house owned by single-parent families and for the first two units of houses owned by two-parent families and establish an institutional framework on this basis. After that, we may consider improving the framework in a dynamic manner.

3. Liu Shangxi: the logical nature of fiscal reform conforms to that of public risks

Liu Shangxi, Director General of the China Academy of Fiscal Science, recently said that public finance is the blood of social organisms. Public finance originates from social organisms and is found at every

level and. In a sense, fiscal reform is about curing the illness of social organisms. Since the reform and opening up, China’s fiscal reform has been advancing in line with the change of public risks, from “poverty of households and nation” to “uneven opportunities” and then to global public risks.

First, the risk of “poor households and an underdeveloped country” forced the government to delegate powers and concede interests. (1) The crisis of survival is the number one public risk in the early days of the reform and opening up when China was faced the public risk of “poor households and an underdeveloped country”. To cope with this risk at that time, the only way was to emancipate the mind and to mobilize all positive factors to engage in economic development through delegation of powers and concessions of interests. The focus of fiscal reform during that period was “public finance for construction” and “public finance for public interests”. (2) The delegation of fiscal powers and concessions of interests first broke the highly centralized planned economy. In 1978, the state-owned enterprises started to be granted with more autonomy and the division of resources was carried out in local governments. This delegation of powers invigorated the economy. Finally, the fiscal decentralization reform paved the way for the rebuilding of the micro-foundation of the market. When it comes to the stage of market-oriented reform, fiscal reform no longer needs the delegation of powers but the division of powers.

Second, the public risk of “uneven opportunities” promoted the governance of rights and power.

By the beginning of the 21st century, China has become the world's second largest economy. China's comprehensive strength and fiscal capacity have been greatly enhanced, but new public risks have emerged. The problem of uneven opportunities faced by various economic and social entities has become increasingly prominent, and "public finance for public interests" has evolved into "modern public finance". The fiscal reform has moved from "delegation of powers" and "division of powers" to "governance of powers". We must first break away from the "ownership-oriented public finance", and the public finance must see to it that all market players compete on a level playing field and receive equal treatment in public finance. "Urban public finance" and "rural public finance" have been integrated, and once again, "public finance for economic development" has been extended to "public finance for people's livelihood", and finally to "public finance for rule of law".

Third, risk globalization highlights the fiscal role of China as a major country. In the era of globalization, risk globalization has highlighted the fiscal role of major countries. Global public risks require China's public finance to play its fiscal role as a major country. We should establish a fiscal framework for China as a major country, enhance its global influence, coordination capacity and demonstration capacity, promote global risk governance through global resource allocation, realize the distribution of global interests, and then resolve global public risks and lead the building of a community of shared future.

The 40 year's fiscal reform follows the logic of public risk. At different stages of the 40 years of

reform and opening up, the public risk-oriented fiscal reform experienced three stages of delegation of powers, division of powers and governance of powers, which served as the breakthroughs for reform of the planned economy, market-oriented reform and national governance reform and underpinned the entire reform process. Fiscal reform and opening up have been reinforcing each other. The fiscal functions of China as a major country that participates in global governance have been strengthened, and the prevention of global public risks has become the theme of fiscal reform in the new era.

4. Lou Jiwei: giving play to the role of market is key to the advancement of the supply-side structural reform

Lou Jiwei, Chairman of the National Council for Social Security Fund, said in a speech that economic development is usually faced with the interweaving of aggregate and structural problems. The former can be addressed by adopting the counter-cyclical demand management approach; the latter occurs on the supply side of the economy, and reform is crucial for improving the efficiency of the allocation of production factors such as labor, capital and land. Structural reforms must take place on the supply side, but they need to be complemented by policies on the demand side.

Looking back at the history of world economic development, both "Reagan's New Deal" and "Thatcher's Reform" are structural reforms as well as crisis-driven passive reforms. In recent years, we have

made efforts to promote structural reforms on the supply side, and the effects of reforms have gradually emerged. But on the whole, the reform method needs to be improved and there is still room for further acceleration of the reform pace. The key to reform at the next step is removing the institutional barriers that hinder the higher efficiency of the allocation of production factors and making the market truly work.

In terms of labor, the focus is on promoting the free flow of labor. We must accelerate the reform of household registration, pension, medical insurance and other systems that restrict the free flow of labor. In the recent period, we have been moving in the opposite reform direction in some areas. In addition, it is necessary to improve the flexibility and mobility of the labor market and promote the balance between employers and employees in the system.

In terms of capital, the focus is on how to make finance better serve the real economy. In the recent period, excessive mixed operation has caused a series of financial irregularities. As the risks accumulated, the costs of capital were also pushed up, exacerbating the difficulties of the real economy. At present, considerable risks have been laid bare. General Secretary Xi emphasized that “finance should be restored with its original function and serve the real economy”. At present, we are in the midst of tackling financial irregularities and fighting against financial risks. Whether it is P2P, the mismatch of risk maturity of some insurance companies or the exposure of small banks to risks, social stability may be compromised and great difficulties may be brought to the financing of SMEs at the same time. Therefore, while reducing

leverage risks, we must also seriously reflect on what kind of capital market we need and what kind of business model we need to develop in order to better serve the real economy.

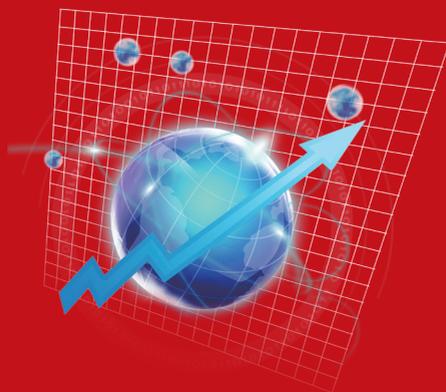
In terms of land, the focus is on speeding up the reform of the land transfer system. We must vigorously promote the reform of the land transfer system and improve the efficiency of land allocation. The Third Plenary Session of the 18th CPC Central Committee clearly stated that “We will allow rural collectively owned profit-oriented construction land to be sold, leased and appraised as shares, on the premise that it conforms to planning and its use is under control, and ensure that it can enter the market with the same rights and at the same prices as state-owned land.” In recent years, some progress has been made in this respect, but the implementation may go awry as the latter part of the sentence is enforced while the former part is ignored or the other way around. Therefore, the reform is still in the pilot stage and has not been fully pushed forward.

Only by putting structural reforms in place can we truly improve the total factor productivity and increase the potential growth rate of China’s economy.

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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
Telephone: 86-10-68141100
Fax: 86-10-68527620
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Publishing Date: September 2018



CHINA FINANCE MONTHLY