

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun: learn and practice dialectical materialism in world outlook and methodology to better promote fiscal reform and development in the new era
- Finance Minister Liu Kun met with David Malpass, the Undersecretary of U.S. Treasury and the U.S. nominee for World Bank President, and exchanged views on relevant issues
- MOF and SAT jointly published the *Circular on the Relevant Tax Policies for Further Supporting and Promoting the Business Startup and Employment of Key Groups of People*
- CPC Central Committee and the State Council published the *Several Opinions on Prioritizing the Development of Agriculture and Rural Areas and Improving the Work Related to Rural Areas, Agriculture and Farmers*
- China's import and export of goods increased by 8.7% in January

# 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.

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## I. Policy Update

### 1. Three departments jointly published the *Circular on the Relevant Tax Policies for Further Supporting the Business Startup and Employment of Retired Soldiers*

On February 2, the Ministry of Finance (MOF), the State Administration of Taxation (SAT) and the Ministry of Veterans Affairs jointly published the *Circular on the Relevant Tax Policies for Further Supporting the Business Startup and Employment of Retired Soldiers*, which provided the following. First, the retired soldiers who engage in self-employment, starting from the month of the registration of individual industrial and commercial business, may deduct payable VAT, urban maintenance and construction tax, education surcharge, local education surcharge and personal income tax in the current year by up to 12,000 RMB per year in three years. Second, the enterprises that recruit, sign plus one-year labor contract with, and pay social insurance premiums for the retired soldiers, starting from the month of signing the labor contract and paying social insurance

premiums, may deduct VAT, urban maintenance and construction tax, education surcharge, local education surcharge and corporate income tax in three years on the basis of the actual number of people to be employed. Third, enterprises recruiting retired soldiers can either apply the preferential tax policies stipulated in this circular, or other preferential tax incentives for supporting employment. Enterprises may choose to apply the most favorable policies, but shall not enjoy both policies at one time.

### 2. MOF and SAT jointly published the *Circular on the Relevant Tax Policies for Further Supporting and Promoting the Business Startup and Employment of Key Groups of People*

On February 2, MOF and SAT jointly published the *Circular on the Relevant Tax Policies for Further Supporting and Promoting the Business Startup and Employment of Key Groups of People*, which provided the following. First, the documented poor people and the people holding an Employment and Business Startup Certificate or an Employment and Unemployment Registration Certificate who engage in self-employed business may, starting from the month of the registration of individual industrial and commercial business, deduct payable VAT, urban maintenance and construction tax, education surcharge, local education surcharge and personal income tax in the current year by up to 12,000 RMB per year in three years. Second, the enterprises that recruit, sign plus one-year labor contract with, and pay social insurance premiums for the documented poor people and the people registered as jobless

for more than half a year at the public job service organization of the human resources and social security department and holding an Employment and Business Startup Certificate or an Employment and Unemployment Registration Certificate may deduct, starting from the month of signing the labor contract and paying social insurance premiums, VAT, urban maintenance and construction tax, education surcharge, local education surcharge and corporate income tax in three years on the basis of the actual number of people to be employed.

### **3. MOF and SAT jointly published the *Circular on Clarifying the Policies for Exempting VAT for Elderly-care Agencies***

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On February 2, MOF and SAT jointly published the *Circular on Clarifying the Policies for Exempting VAT for Elderly-care Agencies*, which provided the following. First, from February 1, 2019 to December 31, 2020, the VAT exemption policy stipulated in the *Regulations on the Transitional Policy for the Trial Replacement of Business Tax with VAT* will be applied to the medical institutions entrusted by other medical institutions to provide the services listed in the *National Standard Medical Service Price Items* at a price level no higher than the guided price set by the competent price authorities and the relevant health authorities above the prefecture (city) level. Second, from February 1, 2019 to December 31, 2020, the interest-free lending of funds between units within the enterprise group (including enterprise groups) is exempted from VAT. Third, the premium income obtained before the receipt of approval document

from insurance regulators by insurance companies that provide refundable life insurance with a term of more than one year shall belong to the premium income as prescribed in the Regulations. After being included in the list of business tax exemption published by MOF and SAT or after the completion of procedures for tax exemption filing, the part of the business tax that has not been deducted or refunded before may be offset against the VAT payable in the following months.

### **4. Three departments jointly published the *Circular on the 2019 Plan of Tax-free Imports of Seeds and Provenances***

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On February 12, MOF, the General Administration of Customs (GAC) and SAT jointly published the *Circular on the 2019 Plan of Tax-free Imports of Seeds and Provenances*, which provided the following. First, the import of seeds (seedlings), breeding stock (poultry), fish seeds (fry) and wild fauna and flora provenance will continue to be exempted from import VAT during the 13th Five-Year Plan period. Second, the Ministry of Agriculture and Rural Affairs's 2019 Plan for tax-free import of seeds (seedlings), breeding stock (poultry) and fish seeds (fry) as well as the State Forestry and Grassland Administration's 2019 plan of tax-free import of seeds (seedlings) and wild fauna and flora provenance have been endorsed.

### **5. Four departments jointly published the *Circular on Adjusting and Improving the Implementation Mechanism for Government Procurement of Energy-***

## **efficient Products and Environmental Labeling Products**

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On February 13, MOF, the National Development and Reform Commission, the Ministry of Ecology and Environment and the State Administration of Market Regulation jointly published the *Circular on Adjusting and Improving the Implementation Mechanism for Government Procurement of Energy-efficient Products and Environmental Labeling Products*, which provided the following. First, the government procurement of energy-efficient products and environmental labeling products is administered on the basis of the list of items. Second, priority procurement and compulsory procurement will be conducted based on the list of items and certification. Third, gradually expand the scope of certification bodies for energy-efficient products and environmental labeling products. Fourth, establish an information release platform for the certification results of energy-efficient products and environmental labeling products, and publish information on relevant certification bodies and certified products. Fifth, the purchasers may propose higher procurement requirements for resource conservation and environmental protection, and give preferential treatment to the eligible certified products.

## **6. MOF published the *Circular on the Relevant Matters Concerning the Reporting of Local Government Treasury Information in 2019***

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On February 14, MOF published the *Circular on the Relevant Matters Concerning the Reporting of Local*

*Government Treasury Information in 2019*, which provided the following. First, the monthly report of local treasury information, which reflects the treasury balance at the beginning of the year, the accumulated amount of inflows and outflows of the treasury funds in the current year, and the treasury balance at the end of the period. Second, the brief analysis of the monthly operation of treasury, which focuses on the structural analysis of the treasury funds, quantitative measurement of the main items that affect the changes in the treasury funds, and analysis of the causes of the monthly and yearly changes in the local treasury funds and problems that merit attention. Third, the analysis of the quarterly performance of treasury funds, which studies the local economic and fiscal performance in a bid to accelerate the implementation of expenditure budget and promote the revitalization of the stock of fiscal funds, and proposes the measures to be taken to manage the treasury funds in a sound manner.

## **7. MOF published the *Circular on Improving the Annual Reporting Work of Accounting Firms in 2018***

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On February 19, MOF published the *Circular on Improving the Annual Reporting Work of Accounting Firms in 2018*, which provided the following. First, the annual reporting of the accounting firms includes a brief description of the current reporting; information on the licensing conditions of accounting firms; business operation in 2018; development of international operation of accounting firms and establishment of branches abroad; performance of anti-money laundering and anti-terrorism financing

obligations of accounting firms. Second, the annual reporting of the branches of accounting firms includes a brief description of the current reporting; relevant information on the licensing conditions of the branches; and the business operation in 2018.

### **8. MOF and SAT jointly published the *Circular on the Property Tax and Stamp Tax Policy for the Apartment of College Students***

On February 20, MOF and SAT jointly published the *Circular on the Property Tax and Stamp Tax Policy for the Apartment of College Students*, which provided the following. First, the college student apartments are exempted from property tax. Second, the lease contract for the college student apartments signed with college students is exempted from stamp tax. Third, the enterprises that enjoy the tax exemption policy stipulated in this circular shall make tax exemption declaration according to the regulations, and keep the proof of the property ownership, the relevant materials containing the original value of the property, the proof of use of the property, and the lease contract for future reference.

### **9. MOF and SAT jointly published the *Circular on the Vehicle and Vessel Tax Policy for State Comprehensive Fire Rescue Vehicles***

On February 20, MOF and SAT jointly published the *Circular on the Vehicle and Vessel Tax Policy for State Comprehensive Fire Rescue Vehicles*, which

provided the following. The state comprehensive fire rescue vehicles that change their number plates from military ones to emergency rescue ones will be exempted from the vehicle and vessel tax in the year of the change of number plates.

### **10. CPC Central Committee and the State Council published the *Several Opinions on Prioritizing the Development of Agriculture and Rural Areas and Improving the Work Related to Rural Areas, Agriculture and Farmers***

On February 20, the CPC Central Committee and the State Council published the *Several Opinions on Prioritizing the Development of Agriculture and Rural Areas and Improving the Work Related to Rural Areas, Agriculture and Farmers*, which provided the following. First, complete the task of poverty alleviation; focus on the extremely poor areas; make efforts to address the outstanding problems; and consolidate and expand the outcomes of poverty alleviation. Second, stabilize grain output; complete the task of the development of high-standard farmland; adjust and optimize agricultural structure; accelerate efforts to make breakthroughs in key and core agricultural technologies; and implement strategies to ensure the supply of important agricultural products. Third, carry out the three-year movement to improve rural living environment; implement village infrastructure construction projects; enhance rural public service levels; strengthen rural pollution control and ecological and environmental protection; and improve the planning of rural areas. Fourth, accelerate the development of rural industries with

special characteristics; vigorously develop the modern processing industry for agricultural products; develop new service industry in rural areas; implement the digital rural strategy; promote the migration of rural labor for employment; support rural innovation and entrepreneurship. Fifth, consolidate and improve the basic rural operation system; deepen the reform of the rural land system; further promote the reform of the rural collective property rights system; and improve the agricultural support and protection system. Sixth, strengthen the capacity of rural governance; promote cultural progress in rural areas; and continue to promote the construction of safe rural areas. Seventh, strengthen the leadership role of the rural grass-root Party organizations; give play to the role of various types of organizations at the village level; strengthen the service functions of village-level organizations; and improve the funding mechanism for the operation of village-level organizations. Eighth, strengthen the institutional guarantee for the rural revitalization; firmly establish the policy orientation of the priority development of agriculture and rural areas; cultivate the work teams that understand agriculture and love the countryside and farmers; and give play to the principal role of farmers.

### **11. MOF published the *Circular on Intensifying Efforts to Transfer the Long-Used Construction-in-Progress Projects of Administrative Institutions to Fixed Assets***

On February 25, MOF published the *Circular on Intensifying Efforts to Transfer the Long-Used Construction-in-Progress Projects of Administrative*

*Institutions to Fixed Assets*, which provided the following. First, speed up to go through the procedures to transfer the completed projects with mature conditions to fixed assets. After a project is completed and accepted, the procedures for asset delivery shall be handled in a timely manner; the payment shall generally be made within 2 months after the project is completed and accepted, or no more than 3 months if the project is of large scale. Second, take the initiative to complete the basic work of the preparation of financial final accounts. After the capital construction project is completed and put into use or is qualified for trial operation, the financial final accounts should be prepared within 3 months. The competent authorities of the project shall firstly review the financial final accounts of the project before they grant the approval, and the projects that meet the conditions for approval shall be approved within 6 months. Third, actively intensify efforts to transfer the long-used construction-in-progress projects to fixed assets. The project agencies should further standardize and strengthen project management and comprehensively clean up the accounting accounts. Fourth, incorporate the information regarding the transfer of long-used construction-in-progress projects to fixed assets into the progress report on the work of financial final accounts of the central capital construction projects. Fifth, incorporate into the annual asset report the information regarding the transfer of long-used construction-in-progress projects to fixed assets.

### **12. MOF, SAT and the Central Publicity Department jointly published the *Circular on Continued Implementation***

### ***of Several Tax Policies for the Conversion of Commercial Cultural Institutions into Enterprises in the Reform of Cultural System***

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On February 26, MOF, SAT and the Central Publicity Department jointly published the *Circular on Continued Implementation of Several Tax Policies for the Conversion of Commercial Cultural Institutions into Enterprises in the Reform of Cultural System*, which provided the following. First, the commercial cultural institutions converted into enterprises will be exempted from the corporate income tax in five years from the date of the registration after conversion. Enterprises that have completed the conversion before December 31, 2018 may continue to be exempted from the corporate income tax for five years starting from January 1, 2019. Second, if the cultural institutions financed by the finance authorities are converted into enterprises, property tax will be exempted for their self-use property for five years starting from the date of the registration after conversion. Enterprises that have completed the conversion before December 31, 2018 will continue to be exempted from property tax for their self-use property for five years starting from January 1, 2019. Third, the cultural enterprises which are set up by separating the publishing, printing and other relevant commercial assets from Party newspapers and journals will be exempted from VAT on their income derived from the publication of Party newspapers and Party journals starting from the date of registration. Fourth, the corporate income tax, VAT, urban maintenance and construction tax, deed tax and stamp tax involved in the evaluation of asset value appreciation and asset transfer during the conversion of commercial cultural institutions may continue to

enjoy relevant preferential tax policies in line with the existing regulations.

### **13. MOF, SAT and PBoC jointly published the *Circular on Further Strengthening the Management of Service Fees for Agents that Withhold, Collect and Levy Taxes***

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On February 27, MOF, SAT and the People's Bank of China (PBoC) jointly published the *Circular on Further Strengthening the Management of Service Fees for Agents that Withhold, Collect and Levy Taxes*, which provided the following. First, budget management. The services fees for agents withholding, collecting and levying taxes shall be included in budget management, and be arranged by the finance authorities through budgetary expenditures; such service fees will be settled on an annual basis; if the relationship with the agents that withhold, collect and levy taxes is terminated within a year, the application for service fees shall be submitted to the tax authorities within 3 months after the termination for the tax authorities to handle the settlement of the service fees; the tax authorities at all levels shall, in accordance with the procedures and requirements, include the application from the agents for service fees into the departmental budget for the next year; MOF will approve the fund-using plan in a timely manner according to the approved budget of services fees. Second, accounting management. The tax authorities at all levels shall, in accordance with the relevant regulations on accounting of administrative institutions, make timely, comprehensive and complete accounting of service fees; the tax authorities at all levels shall, in accordance with the

requirements of finance authorities on preparing and reviewing final accounts, prepare the final accounts of service fees in a truthful, accurate, comprehensive and timely manner, and do a good job in the review of final accounts. Third, payment management. The tax authorities shall not pay service fees to the agents, whether they are units or individuals, that fail to withhold, collect and levy taxes in accordance with laws and regulations; no service fees shall be paid for the entrusted levying of taxes on other's behalf among tax authorities; the service fee income earned by the agents shall be separately accounted for and included in the income of the agents for funding the expenses related to office supplies, personnel costs, IT development, consumables, transportation expenses, etc.. Fourth, supervision and management. Except as otherwise stipulated by laws and administrative regulations, tax authorities at all levels may not directly withhold the service fees from taxes or remove the service fees from the treasury. The treasury at all levels shall not handle the removal of the above-mentioned service fees from the treasury.

## II. Facts & Figures

### 1. China's import and export of goods increased by 8.7% in January

The data released by GAC on February 14 showed that the total value of China's import and export of goods in January 2019 was 2.73 trillion RMB, a year-on-year increase of 8.7%. Among them, exports were

1.5 trillion RMB, up by 13.9%; imports were 1.23 trillion RMB, up by 2.9%; trade surplus was 271.16 billion RMB, an increase of 1.2 times.

### 2. China's CPI rose by 1.7% year on year in January

The data released by National Bureau of Statistics (NBS) on February 15 showed that China's CPI rose by 1.7% year on year in January, among which, CPI rose by 1.8% in urban areas and 1.7% in rural areas; went up by 1.9% for food and by 1.7% for non-food; increased by 1.3% for consumer goods and by 2.4% for services. In month-on-month terms, CPI rose by 0.5%, among which, CPI went up by 0.5% in urban areas and 0.4% in rural areas; rose by 1.6% for food and 0.2% for non-food; increased by 0.4% for consumer goods and 0.6% for services.

### 3. China's M2 increased by 8.4% and M1 increased by 0.4% in January

The data released by PBoC on February 15 showed that China's outstanding M2 at the end of January was 186.59 trillion RMB, up by 8.4% year on year, or 0.3 percentage point higher than the end of last month and 0.2 percentage point lower than the same period of the previous year. The outstanding M1 was 54.56 trillion RMB, a year-on-year increase of 0.4%, or 1.1 percentage points and 14.6 percentage points lower than the end of last month and the same period of last year; the outstanding currency in circulation was 8.75 trillion RMB, a year-on-year increase of 17.2%. The net injection of cash in January was 1.43 trillion RMB.

#### 4. China's nationwide sales of lottery totaled 47.955 billion RMB in January 2019

The data published by MOF on February 26 showed that the nationwide sales of lottery totaled 47.955 billion RMB in January, an increase of 9.626 billion RMB, or up by 25.1%. Among them, welfare lottery sales were 21.219 billion RMB, an increase of 1.883 billion RMB, or up by 9.7%. Sports lottery sales were 26.736 billion RMB, an increase of 7.742 billion RMB, or up by 40.8%. The main reason for the rapid growth in lottery sales in January was that the sales of quiz-type sports lottery increased significantly due to the Asian Cup.

#### 5. China's manufacturing PMI was 49.2% in February 2019

The data published by NBS on February 28 showed that China's manufacturing PMI was 49.2% in February, down by 0.3 percentage point from the previous month. By enterprises, the PMI of large enterprises was 51.5%, up by 0.2 percentage point from the previous month and continued to remain above the critical threshold; the PMI of small and medium-sized enterprises was 46.9% and 45.3% respectively, down by 0.3 percentage point and 2.0 percentage points respectively from the previous month and stayed below the critical threshold. In terms of the classification indexes, among the five indexes that constitute the manufacturing PMI, the new order index was above the critical threshold, while the production index, raw material inventory index, employee index and supplier delivery time index were below the critical threshold.

### III . MOF Events

1. From January 29 to 30, Vice Finance Minister Zou Jiayi made a field visit to Xiong'an New District and Tianjin Municipality to conduct research on the use of resources from multilateral and bilateral development agencies and the implementation of relevant tariff policies in support of local development.

2. On February 12, Finance Minister Liu Kun met with David Malpass, the Undersecretary of U.S. Treasury and the U.S. nominee for World Bank President, and exchanged views on relevant issues.

3. On February 14, Cheng Lihua, Deputy Head of the State Council Leading Group for Poverty Alleviation and Development and Vice Minister of Finance, went to Pingjiang County, Hunan Province to research on targeted poverty alleviation, visit the local government officials engaging in poverty alleviation and the local poor people, and listen to the suggestions on rectifying problems identified in the inspection of MOF's poverty alleviation campaign.

4. From February 17 to 18, Vice Finance Minister Liu Wei led the officials from the Department of Economic Construction of MOF to conduct a special investigation on the supply and demand of corn in Heilongjiang Province, and hosted a symposium on the analysis of the supply and demand of corn in the three provinces of Northeast China.

5. On February 21, Vice Finance Minister Zou Jiayi and Vice Finance Minister Harmad Al-Bazai of Saudi Arabia co-chaired the first meeting of Finance Subcommittee of the China-Saudi High-Level Joint Committee. The two sides held in-depth discussions on issues such as macroeconomic situation and policy, global economic governance, and bilateral fiscal, tax and financial cooperation, and reached consensus on mutually beneficial and win-win cooperation.

## IV. Local Finance

### 1. Guangdong Province actively promoted the reform of the management of electronic fiscal notes

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According to the news released by the Finance Department of Guangdong Province on February 2, it has issued the *Plan for Implementing the Reform of the Management of Electronic Fiscal Notes in Guangdong Province* to promote the reform of the management of electronic fiscal notes in Guangdong. First, adopt the model of province-wide and centralized deployment, upgrade the system, improve the functions of anti-repetitive reimbursement, offline billing and cloud, and simultaneously expand the supporting hardware, in order to complete the installation of the Guangdong electronic fiscal notes management system. Second, promote online processing of notes for continuing education; advance the reform of electronic notes for expressway tolls funded by government debts; promote the seamless

coordination between electronic fiscal notes system and non-tax invoices; and work with the provincial and city medical (social) insurance authorities to study the reimbursement of medical expenses with public funds. Third, adopt a management model featuring centralized deployment and tiered use, comprehensively sort through and consolidate various operational systems, and establish a supervisory and use model at provincial, city and county levels. Fourth, standardize and regulate the management procedures, coding standards and data standards for electronic fiscal notes and establish a supervisory system for electronic fiscal notes. Fifth, improve the management function of the electronic fiscal notes system and disseminate the reform experience.

### 2. Erdos City of Inner Mongolia Autonomous Region advanced disclosure of budget to promote open and transparent public finance

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According to the news released by the Finance Department of Inner Mongolia Autonomous Region on February 3, the Finance Bureau of Erdos City strictly implemented relevant laws and regulations and actively promoted the implementation of a transparent budget in 2018. First, strengthen institutional building and promote budget disclosure; strengthen organizational guidance and improve the basic work; unify the template and standardize the disclosure of budget; enhance communication and handle difficult problems in a timely manner; strengthen supervision and enhance the accountabilities of all parties. Second, develop a budget disclosure mechanism with clear division

of labor, responsibility and coordination. Third, further improve the basic work for the disclosure of budget and final accounts; explore and formulate a special budget disclosure system; gradually establish an assessment system for the disclosure of budget and final accounts; and develop innovative forms of disclosure.

### **3. Zhejiang Province took the lead in achieving substantive breakthrough in the medium-term fiscal planning and management**

According to the news released by the Finance Department of Zhejiang Province on February 12, Zhejiang Province has achieved substantive breakthrough in the medium-term fiscal planning and management. First, achieve the medium-term fiscal planning and management and realize the synergies of policy, capital and work. Second, in light of the five-year national plan and annual plan for economic and social development, consider major changes in the development environment at home and abroad and make sound economic forecasts. Third, focus on the major decisions of the Party Central Committee, the State Council, the Provincial Party Committee and the Provincial Government, and comprehensively sort out and integrate the existing fiscal policies. Fourth, comprehensively balance the five-year general public budget revenues and expenditures according to the 2018-2022 plan for fiscal revenue and expenditure arrangement.

### **4. The Finance Bureau of Xiangyang City, Hubei Province has made every effort to promote the cultural and ethical progress in the bureau**

According to the news released by the General Office of the Finance Department of Hubei Province on February 14, the Finance Bureau of Xiangyang City, Hubei Province has made every effort to promote the cultural and ethical progress in the bureau. First, refine the goals, break down the work tasks, and enhance accountability. Second, raise the standards, mobilize all the staff, and enact strict requirements. Third, increase publicity and foster the atmosphere. Fourth, identify role models to promote learning from good examples. Fifth, increase education and training, improve the quality of cadres, and build a strong and professional team of finance cadres. Sixth, serve the overall interests of the city and improve the image of the Finance Bureau of Xiangyang.

### **5. The online supervisory system for the provincial poverty alleviation funds in Fujian functions effectively**

According to the news released by the Finance Department of Fujian Province on February 19, the online supervisory system for the provincial poverty alleviation funds has ensured the safe, regulated and effective operation of poverty alleviation funds. First, improve the supervision of poverty alleviation funds. Promote the construction of an online supervisory system for poverty alleviation funds in Fujian Province, in order to promote targeted poverty alleviation through precise supervision. Second, make

real-time tracking and monitoring of fund. On one hand, the system would inhibit, to a certain extent, the non-compliant behaviors such as misappropriation of poverty alleviation funds. On the other hand, it would also enable the poverty alleviation fund authorities at all levels to participate in the supervision of poverty alleviation funds in addition to the review and allocation of funds. Third, ensure that every penny is spent on the poor. People can log in to the official website or download APP to have one-stop access to poverty alleviation policies and the information on the distribution of poverty alleviation funds to individuals in recent years.

## 6. Finance authorities of Xiamen City efficiently manage public finance to promote high-quality growth

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According to the news released by the Finance Bureau of Xiamen City on February 20, the finance authorities of Xiamen City, with the aim of building a modern fiscal system, have moved to build mechanisms, improve performance and strengthen supervision, orderly promoted fiscal reforms in key areas, and continued to deepen budget management reforms in 2018. As a result, fiscal supervision and management has become more rigorous, and government asset management more regulated. First, lend more support to the development of the real economy, give play to the guiding role of fiscal policy and funds, accelerate the transformation and upgrading of industries, and achieve steady growth in fiscal revenue. Second, ensure the spending on people's livelihood, keep the spending on people's livelihood as a proportion

of general public budget expenditures at over 70%, and make efforts to address the imbalanced and inadequate development of social undertakings, in line with the requirements of sticking to the bottom line, highlighting key points, perfecting the system, and guiding expectations. Third, raise funds through multiple channels and at low costs to finance urban construction and operation, promote coordinated regional development, and continuously enhance the city's sustainability and livability.

## 7. The Finance Bureau of Pingdingshan City of Henan Province deepened fiscal reform to support the healthy and sustained economic and social development of the city

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According to the news released by the Finance Department of Henan Province on February 26, the Finance Bureau of Pingdingshan City of Henan Province has accelerated the establishment of a modern fiscal system, fully implemented budget performance management, strengthened local government debt management, and maintained the sustained and healthy development of the local economy. First, stay mindful of potential risks and support the fight against the major risks; take a targeted approach to support the fight against poverty; and pursue green development to support the fight against pollution. Second, focus on cultivating high-quality financial resources; support the high-quality development of manufacturing industry; implement innovation-driven development strategy; and support the implementation of rural revitalization strategy. Third, vigorously develop

education and cultural undertakings; improve the social security system; promote the development of health and family planning programs; improve the housing security system; and support the strengthening of comprehensive social governance. Fourth, accelerate the reform of the fiscal and tax system; improve the budget management system; accelerate the performance management; strengthen the administration of budget implementation; continue to strengthen local government debt management. Fifth, implement the principle of economy and frugality, strictly control the operating expenses and the general expenditures of the “three public expenses” of the various government departments, increase the fiscal transfer payments to the grass-root units, strengthen the ability of the financially difficult areas and grass-root government in funding wage payment, government operation and people’s livelihood.

## 8. The Finance Bureau of Yueyang City of Hunan Province took concrete measures to play a greater role in the development of Yueyang

According to the news released by the Finance Department of Hunan Province on February 27, the Finance Bureau of Yueyang City of Hunan Province has actively worked to promote steady growth, advance reform, adjust economic structure, improve people’s livelihood, and prevent risks, thus playing a greater role in the development of Yueyang City. First, implement the new round of the large-scale reduction of taxes and fees of the central government to effectively reduce the burden of companies in

terms of taxes and fees and support the development of the real economy. Second, comprehensively evaluate the various income-increasing factors and the impact of income loss in accordance with the province’s centralized planning and assessment indicators, realistically determine the 2019 local income budget target under the general public budget, and scientifically break down the tasks. Third, implement the people-centered development philosophy, coordinate economic development with improvement of people’s livelihood, strictly manage the “three public expenses”, harden the binding constraints of fiscal budget, and ensure that fiscal funds are spent on the key areas. Fourth, stay mindful of the bottom line of “three no” and “three 10%”, continue to implement the “stop, slow down and shut down” requirements, and improve the joint review and approval mechanism to resolutely curb the debt increase. Fifth, implement the tax reform plans of the central and provincial governments, and accelerate the construction of the local tax system. Sixth, deeply embed performance into budget management, improve management of performance targets, strengthen performance monitoring, and improve the use of evaluation results.

## V. Remarks & Opinions

### 1. Gao Peiyong: the Central Economic Work Conference held from December 19 to 21, 2018 offered insights into the economic work under the new situation

Gao Peiyong, Vice President of the Chinese Academy of Social Sciences, said that the Central Economic Work Conference held from December 19 to 21, 2018 was guided by Xi Jinping's Thoughts on Socialism with Chinese Characteristics for a New Era and offered insights into the economic work under the new situation. First, the main contradiction in China's economy is still structural and on the supply side. Understanding the main contradictions in the high-quality development stage, coping with the problems and challenges of the supply system not being able to adapt to the changes in the demand structure and the difficulty of the economy in achieving a virtuous circle is essential for maintaining the sustained and healthy development of the Chinese economy and the overall social stability. Second, stick to the supply-side structural reforms as the central task. To fundamentally solve the problems and challenges facing the Chinese economy, it is imperative to continue on the path of supply-side structural reforms, consolidate the achievements of "cutting excess capacity, inventory and leverage, reducing costs and shoring up weak links", enhance the vitality of the market entities, upgrade the level of the industrial chain, remove the obstacles to the national economic cycle, and make

it a central task to deepen the supply-side structural reforms and promote high-quality development of the economy in the current and future periods. Third, adopt more reforms and use more market-oriented and rule-of-law methods. Only under the centralized and unified leadership of the Party Central Committee and by deepening the reforms, invigorating the market entities, and driving growth with reforms can we win the tough battle of supply-side structural reforms. Fourth, maintain the focus of macroeconomic regulation and actively guide market expectations. Under the premise of maintaining the overall continuity and stability of macroeconomic policies, we must make preemptive adjustment, adhere to the objectives, follow our own pace of development, focus on getting things done, and turn pressure into the driving force for accelerating the development of high-quality economy. This is not only the important requirements put forward by the Central Economic Work Conference, but also the strategic choice that should be made to ensure the stability of economic operation. Of course, in the high-quality development stage, we must also maintain strategic focus and must have strategic confidence.

### 2. Shi Yaobin: deepen the fiscal and tax reform and comprehensively implement the Budget Law

Shi Yaobin, Deputy Chairman of the Economic and Financial Committee of the National People's Congress (NPC) and Chairman of the Budgetary Affairs Commission of NPC, said that it is necessary to further comprehensively implement the Budget Law, strengthen the review and supervision of budget by NPC, promote the government's standard

management of budget, and deepen budget reform, in order to enable public finance to play its role as the foundation and important pillar for state governance. First, further enhance the understanding of the importance of implementing the Budget Law. Leading cadres of the Party and governments at all levels should further enhance their sense of responsibility and mission, take the lead in studying the Budget Law, actively publicize and strictly implement the Budget Law, earnestly harden budget constraints, and embed the concept of law-based governance of state and law-based management of public finance into all aspects of policy formulation and work planning. Second, accelerate the improvement of the supporting laws and regulations of the Budget Law. Enact and implement the *Regulations on the Implementation of the Budget Law* as soon as possible. Amend the relevant laws in accordance with the requirements of the Party Central Committee on addressing the problem of linking key expenditures with the increase of fiscal revenues or the total value of production. Speed up the improvement of specific measures or regulations that should be formulated under the authorization of the Budget Law. Provincial people's congress should speed up the formulation or revision of local regulations such as those for budget review and supervision. Third, further strengthen government budget management. (1) Make budget preparation more complete and scientific. (2) Make budget implementation more rule-based. (3) Fully implement performance management, deeply embed the performance concepts and methods into the whole process of budget preparation, implementation and supervision, and improve the performance of fund use and the effects of policy implementation.

(4) Speed up the promotion of taxation by law. (5) Comprehensively promote the disclosure of budget and final accounts. (6) Strengthen local government debt management. Fourth, further deepen fiscal and tax reform. (1) Accelerate the reform of intergovernmental fiscal relations, scientifically define the central and local fiscal mandates and expenditure responsibilities, form a rational structure of financial resource allocation between the central and local governments, and accelerate the equalization of basic public services. (2) Improve the transfer payment system. (3) Gradually establish a stable and sustainable local tax system. Fifth, further strengthen the review and supervision of budget by NPC. (1) Strengthen the comprehensive review and supervision of budget. Promote the complete and detailed budget preparation, promote the standardization of budget implementation, and enhance the seriousness and authority of budget. (2) Closely focus on the overall interests of the Party and the state, focus on the major policies, plans and decisions of the Party Central Committee, focus on the hotspots and difficult issues that concern the NPC deputies and the people, grasp the key points and sticking issues, and intensify review and supervision. (3) Actively implement the important reform measures of the Party Central Committee and promote the implementation of the Budget Law. (4) Implement the Budget Law amid the active promotion of budget network supervision. (5) Improve the budget review and supervision work mechanism.

### 3. Liu Kun: learn and practice dialectical materialism in world outlook and methodology to better promote fiscal reform and development in the new era

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In his recent article, Finance Minister Liu Kun said that General Secretary Xi Jinping's important article of *Dialectical Materialism is the World Outlook and Methodology of the Chinese Communists* published by the Qiushi Magazine elaborated on the basic principles and methodology of adhering to and applying dialectical materialism in light of the contemporary world situation and China's reality, set a shining example for the whole Party to learn and use Marxist philosophy, especially dialectical materialism, and also provided scientific guidance for us to use dialectical materialism in fiscal work. First, learn and master the material principle of the world that social being determines consciousness, and push forward the fiscal work in line with objective reality. To proceed from reality, we must first profoundly understand the basic national conditions of our country, and accurately grasp the important judgment that China's development is still in a period of important strategic opportunity over the long term. Second, learn and master the basic principles of contradiction, constantly strengthen the awareness of the problem, and stay problem-oriented. We must understand the boundaries and priority areas of fiscal work, rationally allocate fiscal resources, and follow market rules while making good use of market mechanisms to solve problems; we must give better play to the role of government, ensure that important matters are well managed, and stimulate

the vitality of market and society. We must continue to unleash the enthusiasm of the central and local governments, safeguard the central government's macroeconomic regulation and control, take forward major reforms, maintain market integrity, promote equalization of basic public services, advance coordinated regional development, and at the same time, consider local interests and the needs for tiered management and unleash the enthusiasm, initiative and creativity of the local governments for advancing reform. We must further improve policy-making and fund arrangement, adjust and optimize expenditure structure, make the government tighten the belt, strictly reduce general expenditures, increase support for key areas, and improve the efficiency of fund use. It is necessary to balance efficiency and equity and pay more attention to equity on the basis of improved efficiency. Third, learn and master the fundamental methodology of materialist dialectics and continuously enhance the ability of dialectical thinking. We must establish a holistic view and handle the relationship between "finance" and "public". We must strengthen overall thinking, examine public finance from the economic perspective, and think in a dialectical way. We must remain aware of the bottom line and improve the ability of de-risking. Fourth, learn and master the principles of understanding and practicing dialectics, and put practice first. To put practice first, we need advanced theory to guide practice; establish practical thinking; and require Party members and cadres in the fiscal system to firmly establish the "four consciousness", strengthen the "four self-confidence" and ensure the "two safeguards".

#### **4. Liu Shangxi: full implementation of budget performance management should avoid widening the income distribution gap**

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On February 23, Liu Shangxi, Director General of the Chinese Academy of Fiscal Sciences, said at the Forum on State Governance and Fiscal Performance that the full implementation of budget performance management should give priority to the following issues. First, the dependence of expenditure arrangements on base numbers. Only by breaking this dependence and optimizing the expenditure structure can the 22 trillion RMB of fiscal funds be effectively used and truly meet the expectation of people. Second, the use of funds should be integrated to avoid fragmentation of the use of special funds. The fragmentation of the use of funds is an important cause of the disconnect between money and mandate. Avoiding the fragmentation of the use of funds

is one of the risk factors we are facing now. This determines the effectiveness of state governance, and the effectiveness of state governance can be judged by the degree of fragmentation and the degree of integration of the use of funds. Third, conduct fair competition review over funds that support industrial transformation and upgrading. If government departments only support certain enterprises or a single industry, it will lead to unfair competition in the market, impede the market from playing a decisive role in resource allocation, and greatly lower the overall economic efficiency. Fourth, social expenditures on the protection and improvement of people's livelihood should be analyzed from the scope of beneficiary groups to avoid widening the income distribution gap and social injustice. In reality, the social inequality brought about by social expenditures is caused by the uncertain perception and the unscientific methods of government departments.

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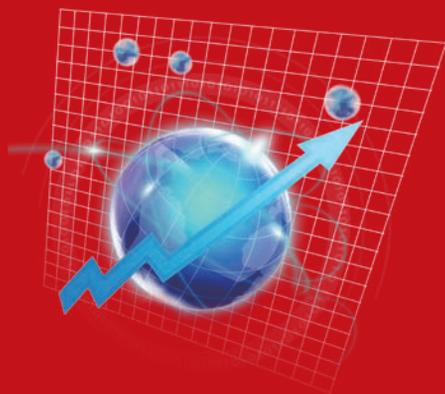
**Fax:** 86-10-68527620

**E-mail:** [iefi@iefi.org.cn](mailto:iefi@iefi.org.cn)

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