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HIGHLIGHTS

- Finance Minister Liu Kun: government will tighten its belt and cut the general fiscal expenditures at the central level by 5%
- Finance Minister Liu Kun, Vice Finance Minister Cheng Lihua and Vice Finance Minister Liu Wei attended the Press Conference of the Second Session of the 13th National People's Congress and answered questions from Chinese and foreign journalists on issues related to "reform of fiscal and tax system and financial issues"
- MOF and SAT jointly published the *Circular on the Individual Income Tax Preferential Policies for Guangdong-Hong Kong-Macao Greater Bay Area*
- MOF, SAT and GAC jointly published the *Announcement on Policies for Deepening the Value-added Tax Reform*
- China's fiscal revenues and expenditures from January to February 2019

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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Acronyms

ADB	Asian Development Bank
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations, China, Korea and Japan
BRICS	Brazil, Russia, India, China and South Africa
CEPA	Closer Economic Partnership Arrangement
CMIM	Chiang Mai Initiative Multilateralization
CPA	Certified Public Accountant
CPC	Communist Party of China
CPI	Consumer Price Index
CPPCC	Chinese People's Political Consultative Conference
GAC	General Administration of Customs
GDP	Gross Domestic Product
GEF	Global Environment Facility
IEFI	International Economics and Finance Institute
IMF	International Monetary Fund
IPI	Industrial Production Index
IPR	Intellectual Property Rights
MIIT	Ministry of Industry and Information Technology
MOA	Ministry of Agriculture and Rural Affairs
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOHRSS	Ministry of Human Resources and Social Security

MOST	Ministry of Science and Technology
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
NPC	National People's Congress
OECD	Organization for Economic Co-operation and Development
PBoC	People's Bank of China
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PPP	Public-Private Partnership
QE	Quantitative Easing
QQE	Qualitative and Quantitative Ease
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
SAFE	State Administration of Foreign Exchange
SAT	State Administration of Taxation
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
VAT	Value-added Tax
WTO	World Trade Organization

I. Policy Update

1. MOF and SAT published the *Circular on the Continued Implementation of the VAT Policy for Supporting the Development of Cultural Enterprises*

On March 1, MOF and SAT published the *Circular on the Continued Implementation of the VAT Policy for Supporting the Development of Cultural Enterprises*, which provided the following. First, for the film group companies (including member companies) authorized by the film authorities (including at the central, provincial, prefecture and county levels) to engage in film production, distribution and screening as well as film studios and other film companies, their income obtained from the sales of the copies of films (including digital copies), the transfer of film copyrights (including transfer and licensing), the release of films and the screening of films in rural areas will be exempted from VAT. Second, the basic cable TV viewing maintenance fees charged by radio and television operating service companies and

the basic viewing fees of rural cable TV will be exempted from VAT.

2. MOF published the *Implementation Guidelines on Promoting the Well-regulated Development of Public-Private Partnership*

On March 8, MOF published the *Implementation Guidelines on Promoting the Well-regulated Development of Public-Private Partnership*, which provided the following. First, the finance authorities at all levels should further raise their awareness, follow the principle of “well-regulated operation, strict supervision, openness and transparency, and integrity and compliance”, effectively prevent and control the hidden debt risks of local governments, resolutely fight the battle against major risks, and solidly advance the well-regulated development of PPP. Second, the well-regulated PPP projects should meet certain conditions, and the new government-paid projects should also comply with the relevant prudential requirements. Third, the finance authorities at all levels should put well-regulated operation first, implement the well-regulated PPP projects in strict accordance with requirements, and must not carry out any prescribed behaviors. Fourth, the finance authorities at all levels should work with relevant authorities to take multiple

measures, with a view to strengthening well-regulated management and classified guidance and increasing policy support for key areas and key projects. Fifth, the finance authorities at all levels should take the initiative to accelerate the establishment of a well-coordinated and effective working mechanism.

3. MOF published the *Circular on the Open Selection and Appointment of Consulting Experts for Revising the Law of the People's Republic of China on Certified Public Accountants*

On March 12, the General Office of MOF published the *Circular on the Open Selection and Appointment of Consulting Experts for Revising the Law of the People's Republic of China on Certified Public Accountants*, which provided the following. First, the consulting experts to be selected and appointed should comply with laws and regulations, conscientiously fulfill duties and responsibilities, and possess professional competence. Second, the rights of consulting experts mainly include: attending the plenary meetings and group meetings of consulting experts and expressing opinions and suggestions on the topics discussed at the meetings; participating in relevant research activities on the revision

of the CPA Law; and presenting comments and suggestions on the key and difficult issues arising from the revision of the CPA Law. The obligations of consulting experts mainly include: attending the plenary meetings and group meetings of consulting experts on time; cooperating with research activities and other related work in the process of revising the CPA Law; undertaking the confidentiality obligations as required, and promptly informing their changes in work and contact information.

4. MOF published the *Circular on Improving the Management of the Central Government's Special Funds for the Development of Financial Inclusion in 2019*

On March 12, MOF published the *Circular on Improving the Management of the Central Government's Special Funds for the Development of Financial Inclusion in 2019*, which provided the following. First, increase subsidies and incentives for the guarantee loans to business startup and earnestly implement the policy of providing targeted subsidies for rural financial institutions. Second, starting from 2019, the incentive policy for the increase of agriculture-related loans of county-level financial institutions will cease to be implemented. Starting from 2019, the central

government will no longer earmark incentive funds for PPP projects. Third, the Inspector's Office of MOF should attach great importance to the management of special funds for financial inclusion, consolidate the foundation of management, and ensure the authenticity of data. The provincial finance departments shall, in conjunction with the relevant authorities, organize the monitoring and analysis of guarantee loans for business startup, strengthen the precise management of guarantee loans for business startup, and further promote the well-regulated development of guarantee loans for business startup. Encourage all localities to explore and innovate according to local conditions, further leverage fiscal and financial policies, effectively guide financial resources to "support small businesses and help micro businesses", ease the difficulties of private and small and micro enterprises in accessing affordable financing, and promote the optimization of economic structure and high-quality development.

5. MOF and the State Council Leading Group Office of Poverty Alleviation and Development published the *Circular on Improving the Pilot Program on the Consolidation of Agricultural-related Funds in Poor Counties in 2019*

On March 13, MOF and the State Council Leading Group Office of Poverty Alleviation and Development published the *Circular on Improving the Pilot Program on the Consolidation of Agricultural-related Funds in Poor Counties in 2019*, which provided the following. First, all provinces should supervise and guide poor counties to earmark the consolidated funds for agricultural production and development and rural infrastructure construction and prioritize the industrial development projects that help poor people to continuously increase income, consistent with the poverty reduction plan, annual poverty reduction task and the current poverty reduction standard. Second, all localities must address the problem of not firmly supporting or even resisting the consolidation of funds, and resolutely expose the typical cases and seriously hold them accountable. Third, all provinces must conscientiously guide poor counties to prepare annual consolidation plans according to requirements and effectively increase the proportion of substantive consolidation, in line with the county-level poverty reduction plans and the annual poverty reduction task. Fourth, effectively require provincial-level governments to assume the overall responsibilities, strengthen the accountability of major players, and enhance inspection, audit, performance evaluation and supervision.

6. MOF and SAT jointly published the *Announcement on the Standards for Determining the Residence Time of Individuals without Domicile in China*

On March 16, MOF and SAT jointly published the *Announcement on the Standards for Determining the Residence Time of Individuals without Domicile in China*, which provided the following. First, for individuals without domicile who have resided in China for over 183 days or more in a tax year, if the cumulative number of days of residing in China was over 183 days or more in the previous six years, and there was no single departure from China for more than 30 days in any of the previous six years, their income derived from China and overseas in the tax year shall be subject to individual income tax; if the cumulative number of days of residing in China in any of the previous six years was less than 183 days or a single departure exceeded 30 days, their income of the tax year from outside China and paid by overseas units or individuals will be exempted from individual income tax. Second, for individuals without domicile, the number of residing days in China within one tax year is calculated as the cumulative number of days that individuals have stayed in China. If the duration of stay in China is 24 hours on a given day, the day shall be counted into the number of days of residing in China. If the

duration of stay in China is less than 24 hours on a given day, the day shall not be counted into the number of days of residing in China.

7. MOF and SAT jointly published the *Circular on the Individual Income Tax Preferential Policies for Guangdong-Hong Kong-Macao Greater Bay Area*

On March 16, MOF and SAT jointly published the *Circular on the Individual Income Tax Preferential Policies for Guangdong-Hong Kong-Macao Greater Bay Area*, which provided the following. First, Guangdong Province and Shenzhen City, in light of the difference between the Mainland and Hong Kong on individual income tax bearing, may provide subsidies for the overseas (including Hong Kong, Macao and Taiwan) high-end talents and urgently-needed talents working in the Greater Bay Area. These subsidies are exempted from individual income tax. Second, the identification and subsidy methods for the overseas high-end talents and urgently-needed talents working in the Greater Bay Area shall be implemented in accordance with the relevant regulations of Guangdong Province and Shenzhen City. Third, the applicable scope of this Circular includes nine cities in the Pearl River Delta: Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing.

8. MOF and SAT jointly published the *Circular on the Individual Income Tax Policies for Non-Resident Individuals and Individuals without Domicile*

On March 17, MOF and SAT jointly published the *Circular on the Individual Income Tax Policies for Non-Resident Individuals and Individuals without Domicile*, which provided the following. First, the non-resident individuals who have resided in China for no more than 90 days in a tax year shall calculate and pay individual income tax only for their wage and salary incomes derived from their working period in China and paid or borne by their employers in China. Second, in a tax year, non-resident individuals who have more than 90 but less than 183 cumulative days of residing in China shall calculate and pay individual income tax for their wage and salary incomes derived from their working period in China; wage and salary incomes derived from their working period outside China are not subject to individual income tax. Third, when individuals without domicile are resident individuals and have resided in China for less than six consecutive years of accumulated domestic residence of 183 days per year, if relevant preferential conditions are met, all their wage and salary incomes, except for the portion derived from their working period outside China and paid or borne by units and individuals outside China, shall be subject to individual income tax. Fourth, after six consecutive years of continuous domestic residence of 183 days or

more in China per year, resident individuals without domicile who do not meet the relevant preferential conditions, shall calculate and pay individual income tax for all their wage and salary incomes derived from within and outside China.

9. MOF published the *Decision on Revising the Registration Procedures for Certified Public Accountants*

On March 19, MOF published the *Decision on Revising the Registration Procedures for Certified Public Accountants*, which provided the following. First, the Article 6 is revised as: applicants applying for registration should submit, through the accounting firms at which they work, the application form for CPA registration to the provincial CPA Associations where the accounting firms are located. Second, the Article 7 is revised as: applicants and the accounting firms at which they work shall be responsible for the authenticity of the content of application materials. Third, the Article 9 is revised as: the provincial CPA Associations shall review the application materials submitted by applicants. If the application materials are incomplete or do not conform to the statutory form, they shall inform, on the spot or within 5 working days, the applicants about the materials and contents that need to be supplemented. If the application materials are complete and conform to the statutory form, the

application should be processed readily. Fourth, one more paragraph is added to the Article 16 as the second paragraph: those who are deregistered or have their CPC certificate revoked due to item (4) of the preceding paragraph will be warned by the provincial finance departments and be made public. Fifth, one more article is added as the Article 17: if the applicants and the accounting firms at which they work present false application materials, the provincial finance departments shall issue a warning to the applicants and the chief partners (the chief accountants) of the accounting firms and make the case public.

will be funded by the basic pension insurance fund for enterprise employees, and the basic pension insurance for government institution employees will be funded by the basic pension insurance fund for government institution employees. Fourth, all regions should attach great importance to the adjusting work, strengthen leadership, well organize the implementation, enhance publicity and explanation, properly guide the public opinion, and ensure that all work is carried out smoothly. In accordance with the unified deployment of the State Council and in line with the local conditions, specific implementation plans shall be formulated and submitted to the Ministry of Human Resources and Social Security and MOF for approval before May 31, 2019.

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10. MOF and MOHRSS jointly published the *Circular on Adjusting the Basic Pensions for Retired Persons in 2019*

On March 20, MOF and MOHRSS jointly published the *Circular on Adjusting the Basic Pensions for Retired Persons in 2019*, which provided the following. First, the overall adjustment level is set at around 5% of the monthly basic pension for retirees in 2018. Second, continue to adopt a combined policy of fixed-sum adjustment and linkage adjustment, and appropriately tilt to unify the adjustment measures for retirees of enterprises and government institutions. Third, adjust the funds required for basic pensions. Basic pension insurance for enterprise employees

11. MOF, SAT and GAC jointly published the *Announcement on Policies for Deepening the VAT Reform*

On March 21, MOF, SAT and GAC jointly published the *Announcement on Policies for Deepening the VAT Reform*, which provided the following. First, VAT general taxpayers (hereinafter referred to as taxpayers) who make VAT taxable sales or import goods will see their VAT rate fall to 13% if the original 16% rate is applied; and see their VAT rate fall to 9% if the original 10% rate is applied. Second, if the taxpayers purchase agricultural products and the original 10% deduction rate is

applied, the deduction rate will be adjusted to 9%. If the taxpayers purchase agricultural products for production or for entrusted processing of goods with a 13% tax rate, the input tax amount will be calculated according to the 10% deduction rate. Third, the export goods service with the original 16% tax rate and the export tax rebate rate of 16% will see the export tax rebate rate adjusted to 13%; the export goods and cross-border taxable behaviors with the original export tax rate of 10% and the export tax rebate rate of 10% will see the export tax rebate rate adjusted to 9%. Fourth, the original 13% tax refund rate for goods purchased by overseas passengers will fall to 11%; the original 9% tax refund rate for goods purchased by overseas passengers will fall to 8%. Fifth, starting from April 1, 2019, the input tax of taxpayers acquiring real estate or real estate construction projects will no longer be deductible in two years. Sixth, the taxpayers who purchase domestic passenger transportation services will be allowed to deduct the input tax from the output tax. Seventh, from April 1, 2019 to December 31, 2021, taxpayers in the producer and consumer services industries will be allowed to deduct the taxable amount by an extra 10% of the current deductible input tax. Eighth, the trial of the tax refund system for the un-deducted input tax at the end of the VAT period will be carried out starting from April 1, 2019.

12. MOF and MOA jointly published the *Circular on Improving the Demonstration Program for Developing Townships with Strong Agricultural Industries in 2019*

On March 25, MOF and MOA jointly published the *Circular on Improving the Demonstration Program for Developing Townships with Strong Agricultural Industries in 2019*, which provided the following. First, focus on the main business and promote cluster development; encourage innovation-led and integrated development; promote participation by various parties and coordinated advancement. Second, strengthen the leading agricultural industry, foster industrial integration, develop innovative mechanisms for shared interests, establish and improve the systems and mechanisms, and eradicate poverty through enhanced industrial development. Third, the central government will provide appropriate support for the demonstration program for developing townships with strong agricultural industries through financial incentives and other means. Fourth, the towns applying for the program should meet the following conditions: strong support of local governments; solid foundation of leading industries; catalytic integration of industries; scientific and reasonable planning; and sound mechanism for close interaction with agricultural industry. Fifth, observe relevant requirements; strengthen organizational leadership;

strengthen coordination and cooperation; strengthen supervision and management; and step up the summary of experiences and publicity work.

13. MOF, MIIT, MOST, and NDRC jointly published the *Circular on Further Improving the Government Subsidy Policy for the Promotion and Application of New Energy Vehicles*

On March 26, MOF, MIIT, MOST, and NDRC jointly published the *Circular on Further Improving the Government Subsidy Policy for the Promotion and Application of New Energy Vehicles*, which provided the following. First, appropriately raise the threshold of technical indicators, keep the upper limit of technical indicators unchanged, focus on supporting high-quality products with high technology level, and encourage enterprises to pay attention to safety and consistency. Second, reduce the subsidy standards for new energy passenger cars, new energy buses and new energy trucks, promote the survival of the fittest in the industry, and prevent severe fluctuations of the market. Third, starting from 2019, a portion of funds will be pre-allocated to vehicles with operating mileage requirements after the completion of sales. After the mileage requirements are met, subsidies can be applied for in accordance with procedures.

Fourth, starting from 2019, models that meet the requirements of the Circular but have not yet met the technical conditions for subsidies are also included in the recommended model list. Fifth, further strengthen the safety and consistency oversight, and require the competent authorities to speed up the establishment of a mechanism for product safety monitoring and “consistency” random inspection.

14. MOF and MOA jointly published the *Circular on Improving the Implementation of the 2019 Promotion Project for the Green, Circular, Quality and Efficient Agriculture with Special Features*

On March 28, MOF and MOA jointly published the *Circular on Improving the Implementation of the 2019 Promotion Project for the Green, Circular, Quality and Efficient Agriculture with Special Features*, which provided the following. First, the promotion project for the green, circular, quality and efficient agriculture with special features will be under the central planning, provincial responsibility and county implementation. Second, encourage the provinces to develop innovative institutional mechanisms and policy systems, make coordinated use of funds to support agricultural production and development as well as agricultural resources and ecological protection, encourage

industrial and commercial capital to participate in the development of the green and quality agricultural products with special features, and guide financial institutions to support project implementation. Third, the provincial finance departments should strengthen financial support and policy supervision. The financial divisions of the provincial agricultural departments should step up organization and policy coordination. The divisions for rural industrial development should do a good job in project implementation, study and refine specific measures, and guide and urge local governments to improve project implementation. Fourth, provincial agricultural departments and finance departments should enhance daily supervision and guidance, improve management and assessment mechanisms, and accelerate the implementation of projects.

II. Facts & Figures

1. The central and local budget implementation in 2018

According to the news released by MOF on March 7, China's general public budget revenue in 2018 was

18.335184 trillion RMB, which was 100.1% of the budget, an increase of 6.2% over 2017. The general public budget expenditure was 22.090607 trillion RMB, which was 105.3% of the budget, an increase of 8.7%. With the addition of 101.854 billion RMB of the Central Budget Stabilization Fund, the total expenditure was 22.192461 trillion RMB. When total revenue was measured against expenditure, deficit was 2.38 trillion RMB, which was the same as the budget. The general public budget revenue at the central level was 8.544734 trillion RMB, which was 100.1% of the budget, an increase of 5.3%. The general public budget expenditure at the central level was 10.23818 trillion RMB, which was 99.1% of the budget, an increase of 7.7%. The general public budget revenue at the local level was 16.757849 trillion RMB, and the general public budget expenditure at the local level was 18.819826 trillion RMB, an increase of 8.7%. The government-managed fund revenue was 7.54045 trillion RMB, an increase of 22.6%. The government-managed fund expenditure was 8.056207 trillion RMB, an increase of 32.1%. The state-owned capital operating budget revenue was 289.995 billion RMB, an increase of 9.8%. The national state-owned capital operating budget expenditure was 215.926 billion RMB, an increase of 6.7%. The revenue of social security fund was 7.264922 trillion RMB, an increase of 24.3%, and the expenditure of social security fund was 6.458645 trillion RMB, an increase of 32.7%.

2. The change of China's foreign exchange reserves in February

According to the news released by SAFE on March 7, China's foreign exchange reserves at the end of February was 3.0902 trillion USD, up by 2.3 billion USD from the previous month, or an increase of 0.1%.

3. China's economic performance was generally stable from January to February

The data published by NBS on March 14 showed that China's economy continued to operate within an appropriate range of growth from January to February, maintaining an overall stable and progressive development trend. From January to February, China's service industry production index increased by 7.3% year on year; nationwide added value of industrial enterprises above designated size increased by 5.3% year on year; investment in fixed assets was 4.4849 trillion RMB, up by 6.1% year on year; retail sales of consumer goods totaled 6.6064 trillion RMB, up by 8.2% year on year; new job creation in urban areas was 1.74 million; the urban surveyed unemployment rate was 5.3%; the urban surveyed unemployment rate in 31 large cities was 5.0%; the consumer price rose by 1.6% year on year; the total import and export was 4.5441 trillion RMB, up by 0.7% year

on year, while the figure in December of last year was down by 1.2%.

4. China's fiscal revenues and expenditures from January to February 2019

According to the news released by MOF on March 18, China's general public budget revenue was 3.9104 trillion RMB from January to February, a year-on-year increase of 7%, among which, the tax revenue was 3.5114 trillion RMB, a year-on-year increase of 6.6%; the non-tax revenue was 399 billion RMB, a year-on-year increase of 10.8%. The national general public budget expenditure was 3.3314 trillion RMB, a year-on-year increase of 14.6%, among which, the general public budget expenditure of the central level was 407.8 billion RMB, an increase of 15.4% year on year; the general public budget expenditure of the local level was 2.9236 trillion RMB, an increase of 14.5% year on year. The national government fund budget revenue was 945 billion RMB, down by 2.3% year on year, among which, the central government fund budget revenue was 61.2 billion RMB, an increase of 5% year on year; the local government fund budget revenue was 883.8 billion RMB, down by 2.8% year on year. The national government fund budget expenditure was 1.4374 trillion RMB, a year-on-year increase of 1.1 times, among which, the government fund budget expenditure of the

central level was 10.7 billion RMB, a year-on-year increase of 1.4 times; the government fund budget expenditure of the local level was 1.4267 trillion RMB, an increase of 1.1 times year on year.

5. Issuance of local government bonds and outstanding debts in February 2019

According to the news released by MOF on March 20, China issued 364.2 billion RMB of local government bonds in February 2019. Among them, 192.5 billion RMB were general bonds and 171.7 billion RMB were special bonds; by the purpose of use, 327.4 billion RMB were new bonds and 36.8 billion RMB were bonds for swap and refinancing. As of the end of February 2019, the outstanding national local government debts stood at 19.142 trillion RMB, which were within the limits approved by the National People's Congress. Among them, the general debts stood at 11.4273 trillion RMB and the special debts at 7.7147 trillion RMB; the government bonds stood at 18.8269 trillion RMB, and the government debts in the form of non-government bonds at 315.1 billion RMB. As of the end of February 2019, the average remaining maturity of local government bonds was 4.4 years, including 4.4 years for general bonds and 4.5 years for special bonds; the average interest rate was 3.5%, including 3.49% for general bonds and 3.51% for special bonds.

6. The performance of Chinese SOEs from January to February 2019

The data published by MOF on March 26 showed that the gross revenue of SOEs totaled 8.70527 trillion RMB from January to February, up by 6.3% year on year, among which, the figure for central SOEs was 5.20425 trillion RMB, up by 5.0% year on year, and the figure for local SOEs was 3.50102 trillion RMB, up by 8.3% year on year. The operating costs of SOEs totaled 8.42819 trillion RMB, up by 6.5% year on year, among which, the figure for central SOEs was 4.95261 trillion RMB, up by 4.9% year on year, and the figure for local SOEs was 3.47558 trillion RMB, up by 9.0% year on year. The profits of SOEs totaled 452.05 billion RMB, up by 10.0% year on year, among which, the figure for central SOEs was 332.74 billion RMB, up by 14.3% year on year, and the figure for local SOEs was 119.31 billion RMB, down by 0.5% year on year. The after-tax net profits totaled 327.8 billion RMB, up by 10.3% year on year, among which, the figure for central SOEs was 244.53 billion RMB, up by 16.6% year on year, and the figure for local SOEs was 83.27 billion RMB, down by 4.6% year on year. The payable taxes of SOEs totaled 817.46 billion RMB, up by 0.6% year on year, among which, the figure for central SOEs was 605.69 billion RMB, up by 1.5% year on year, and the figure for local SOEs was 211.77 billion RMB, down by 1.9% year on year. At the end of February, the assets of SOEs totaled 187.97945 trillion RMB, up by 8.5%

year on year; the liabilities totaled 121.1418 trillion RMB, up by 8.1% year on year; and the owners' equities totaled 66.83765 trillion RMB, up by 9.2% year on year.

III . MOF Events

7. China's lottery sales in February 2019

The data released by MOF on March 28 showed that nationwide lottery sales in February were 23.412 billion RMB, down by 8.8% year on year. The welfare lottery sales were 11.295 billion RMB, down by 13.9% year on year. The sports lottery sales were 12.117 billion RMB, down by 3.4% year on year. By type, the lotto lottery sales were 11.719 billion RMB, down by 23.1% year on year; the toto lottery sales were 6.651 billion RMB, up by 19.8% year on year; the instant lottery sales were 1.789 billion RMB, down by 0.6% year on year; the video lottery sales were 3.244 billion RMB, up by 6.2% year on year; and the keno lottery sales were 9 million RMB, up by 8.5% year on year. In February, the lotto, the toto, the instant, the video and the keno lottery sales respectively accounted for 50.1%, 28.4%, 7.6%, 13.8% and 0.1% of the total lottery sales.

1. On March 7, Finance Minister Liu Kun, Vice Finance Minister Cheng Lihua and Vice Finance Minister Liu Wei attended the Press Conference of the Second Session of the 13th National People's Congress and answered questions from Chinese and foreign journalists on issues related to "reform of fiscal and tax system and financial issues".

2. On March 11, MOF held a symposium on targeted poverty alleviation of Yongsheng County to share information on Yongsheng County's poverty alleviation work and plan the next step forward. Cheng Lihua, Member of the MOF Leadership Party Group, Vice Finance Minister and Deputy Head of the MOF Leading Group for Poverty Alleviation Work, presided over the meeting. Zou Jiayi, Member of the MOF Leadership Party Group, Vice Finance Minister and Deputy Head of the MOF Leading Group for Poverty Alleviation Work, attended the meeting. The representatives of the Finance Department of Yunnan Province, the Government of Lijiang City and the Party Committee of

Yongsheng County made presentation on the poverty alleviation work. The representatives of MOF from the Budget Department, the Agriculture Department, the Personnel and Education Department, and the Department of Party Committee participated in the discussions and exchanges of views.

3. On March 19, Finance Minister Liu Kun met with Maleiane, Minister of Economy and Finance of Mozambique, and exchanged views on the macroeconomic situation of the two countries and bilateral financial cooperation.

4. On March 19, Finance Minister Liu Kun met with Smailov, the First Deputy Prime Minister and Minister of Finance of Kazakhstan, and exchanged views on China-Kazakhstan financial cooperation.

5. On March 24, Finance Minister Liu Kun met with Joseph Stiglitz, Nobel Laureate in Economics, at the Diaoyutai State Guesthouse. The two sides exchanged views on China-US economic and trade relations and China's tax reform.

6. On March 24, Finance Minister Liu Kun met with Ray Dalio, Chairman of Bridgewater Associates, at the Diaoyutai State Guesthouse. The two sides exchanged views on the global macroeconomic situation and global debt issues.

IV. Local Finance

1. Guangxi Zhuang Autonomous Region focused on six areas to promote high-quality economic and social development

According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on March 4, Guangxi has focused on six areas to promote high-quality economic and social development. First, implement large-scale tax and fee cut, with a particular focus on reducing the tax burden of manufacturing industry and small and micro enterprises. Second, support the taxation department to collect and manage taxes according to law, tap the potential for increasing revenue, and make every effort to increase revenue and proportion of tax revenue. Third, support the key areas and key links crucial for reform, development and stability, and highlight the importance of ensuring wage payment, government operation and spending on people's basic livelihood at the grass-root level. Fourth, speed up the establishment of fiscal relations between the

autonomous regions and the cities and counties with clear defined fiscal powers and responsibilities, and follow up with the reform of the division of fiscal powers and spending responsibilities in basic public services at the sub-region level. Fifth, track and monitor the fulfillment of performance targets of departments and the expenditure performance targets of projects from the stage of budget preparation, execution and disbursement to supervision, final accounts and evaluation. Sixth, include the bond quota approved by the central government into the budget at the beginning of the year so as to facilitate early arrangements, early issuance, early use and early outcomes in support of the development of various undertakings.

2. Kaifeng City of Henan Province will improve the funding mechanism for the key government investment projects

According to the news released by the Finance Department of Henan Province on March 6, the finance authorities of Kaifeng City will improve the funding mechanism for the key government investment projects in 2019. First, reduce general expenditures, better use stock funds, and ensure the funding needs of key projects. Regulate government borrowing and seize the opportunity from the government's issuance of special bonds. Accelerate

the allocation of funds and ensure that key projects are started as scheduled. Second, make good use of the special funds for land reserve and renovation of shantytown areas. Accelerate the transformation and reform of investment and financing companies in cities and counties. Regulate the implementation of PPP model to attract private capital. Vigorously promote the model supported by policy finance and development finance. Actively establish fund to support project implementation. Third, strictly manage the funds. Fully implement budget performance management. Strengthen the use of results.

3. The Finance Department of Fujian Province took a systemic approach to support urban construction and management

According to the news released by the Finance Department of Fujian Province on March 11, it conscientiously implemented the decisions and plans of the provincial Party committee and government, and supported urban construction and management by strengthening weak links, improving quality, enhancing livability, strengthening management and supporting relevant industries. First, raise funds through multiple channels to support the renovation of shantytowns, the construction of drainage systems, the treatment of polluted and odorous water bodies, and the construction of public parking lots.

Second, provide support for water safety, air quality and urban greening as important projects related to people's livelihood. Third, arrange funds every year for the protection of historical buildings and the reparation of old streets. Fourth, promote the holistic and high-level planning, comprehensive policy implementation and high-standard construction to advance urban development. Fifth, promote the sustainable development of urban construction, actively support the transformation and upgrading of urban industries, and push forward the development of headquarters economy, digital economy, modern service industry and high-tech industries.

4. The Finance Bureau of Loudi City of Hunan Province took seven steps to promote social and economic development to a higher level

According to the news released by the Finance Department of Hunan Province on March 12, the Finance Bureau of Loudi City will concentrate efforts on fiscal planning from a holistic perspective in 2019 to promote the city's high-quality development with higher efficiency and better effectiveness. First, effectively implement the tax and fee cut. Improve political consciousness and make the implementation of the tax and fee cut a litmus stone for testing the "four awareness" and "two safeguards" of finance authorities. Second, deepen the cultivation of financial

resources and strengthen tax collection. Select and give priority to supporting the enterprises that are in line with the development direction and possess strong independent innovation capability and development potential. Third, prevent and resolve debt risks and strengthen debt control. Continue to implement the requirements of "stopping, decelerating, shrinking and withdrawing", strengthen the management of government debt limits, and strictly control the scale of government debt. Fourth, optimize the composition of fiscal expenditures and make structural adjustment. Distinguish between priorities and non-priorities, work on "addition, subtraction, multiplication and division", and comprehensively enhance the ability of serving economic development and ensuring people's livelihood. Fifth, implement comprehensive performance management and improve budget performance. Fully include government revenues and expenditures, departmental and unit budget, major policies and projects into performance management. Sixth, improve the financing guarantee system and provide better protection. Focus on supporting small-scale farmers, promote risk sharing, encourage banks to cut fees and cede profits, and fully drive all sources of funds to support small and micro enterprises, "agriculture, rural areas and farmers" and business startup and innovation. Seventh, regulate the fiscal management of cities and counties. Strengthen the supervision and management as well as the guidance for the finances of counties directly under the administration of province.

5. The Finance Bureau of Yichang City enforced the main responsibility in the CPC's comprehensive and Strict Party governance

According to the news released by the Finance Department of Hubei Province on March 20, since 2018, the Finance Bureau of Yichang City has comprehensively implemented the main responsibility in the CPC's comprehensive and strict Party governance. First, strictly control the budgetary arrangement, enhance the accountability of departmental budget management, optimize departmental budget preparation methods, improve budget preparation system, perfect budget preparation model, and strengthen the planning and management of rolling development expenditures. Second, strengthen the management of state-owned assets and SOEs, financial supervision, government-invested projects, shanty town renovation funds, foreign loans, poverty alleviation funds, social security funds and business startup guarantee loans. Third, prevent and resolve government debt risks, and include all government debt-related revenues and expenditures and debt service funds into budget management. Deepen the reform of "streamlining administration and improving services" and fully implement the policy of tax and fee cut. Strengthen the construction of fiscal information network and explore the construction of an accounting service platform that is "standardized and easy to operate". Fourth, improve

the construction of financial and economic systems, improve the specific plans for financial and economic disciplines, deploy systems to manage power, business and people, plug management loopholes, and build a long-term mechanism. Fifth, strengthen internal control and adhere to the right selection and recruitment standards.

6. The Finance Bureau of Suzhou City continuously promoted the reform of "streamlining administration and improving services" and earnestly implemented the policy for the development of SMEs

According to the news released by the Finance Department of Anhui Province on March 21, the Finance Bureau of Suzhou City has continuously promoted the reform of "streamlining administration and improving services" and earnestly implemented the policy for the development of SMEs. First, formulate the *Administrative Measures for the Supervision of Government Procurement in Suzhou City* and make clear requirements for setting aside a certain proportion of government procurement budget for SMEs. Second, the finance authorities of all levels have made clear the requirements for implementing policies to promote the development of SMEs when formulating the annual government centralized procurement catalogue and quota standards. Third,

work with the public resource transaction management department to implement the requirements of government procurement for the promotion of SMEs during the bidding and procurement process. Fourth, strengthen dynamic supervision of the implementation of the policy of government procurement for the promotion of SMEs, and analyze and understand the situation through quarterly reports on government procurement information. Fifth, strengthen supervision and inspection of the implementation of government procurement policies. If the preferential policies for SMEs are not implemented according to the regulations or if differentiated treatment and discriminatory treatment are accorded to SMEs, rectification within the deadline will be required and punishment be made according to law.

7. The Finance Department of Shandong Province established a “1+2” policy system for budget performance management

According to the news released by the Finance Department of Shandong Province on March 25, Shandong Province has established a “1+2” policy system for budget performance management. First, comprehensively strengthen budget performance management from three aspects, and build a comprehensive, full-process and full-coverage budget performance management framework based

on the establishment of mechanisms, expansion of scope, focus on key areas and strengthening of weak links. Second, establish and improve a common performance indicator framework combining quantitative and qualitative indicators. With the help of a serial of core performance indicators and standards in different industries and sub-fields, and the indicators with basic public service standards and departmental budget project expenditure standards, the government established a dynamic adjustment mechanism. Third, innovatively establish an incentive and restraint mechanism of “one report, two inclusions, three links and strengthened audit supervision” to strengthen the accountability of those subject to performance assessment.

8. Yunnan Province earnestly implemented relevant documents on granting greater autonomy to scientific research institutions and personnels

According to the news released by the Finance Department of Yunnan Province on March 26, Yunnan Province has earnestly implemented relevant documents on granting greater autonomy to scientific research institutions and personnels. First, delegate the powers for budget adjustment. Project implementing units will be granted the power to independently decide on the “equipment expenses”

and “other expenses” in the “direct expenses”, if these expenses are adjusted within 20% of the adjustment range, as well as other budget items. Second, simplify budget preparation and reduce unnecessary procedures. Simplify the equipment procurement process of colleges and universities. Provincial universities and research institutes may skip the tendering and bidding procedures and shorten the procurement cycle by using special procurement and on-demand procurement mechanisms for the purchase of equipment and consumables that are urgently needed for scientific research. Third, strengthen the internal management of project implementing units, strengthen the whole-process performance management, and strengthen the fiscal support for the application of science and technology achievements. Fourth, raise the proportion of indirect funding for intellectually intensive scientific research projects, and enforce a differentiated budget implementation assessment mechanism. Repeated and overlapped inspections should be avoided to reduce the interference of scientific research activities and allow for the independent management of horizontal funds.

V. Remarks & Opinions

1. Liu Kun: implement the requirements of Party building for a new era and make new ground in Party building at MOF

In his recently published article, Finance Minister Liu Kun said that the Leadership Party Group of MOF thoroughly studied and implemented Xi Jinping’s Thoughts on Socialism with Chinese Characteristics for a New Era and the guiding principles of the 19th National Congress of the Communist Party of China, profoundly grasped the point that “the central and state organs are first and foremost political organs”, consciously assumed the main responsibility of Party building at MOF, sought to be guided by Party’s political building, highlighted the political functions, comprehensively promoted the various undertakings of Party at MOF, and provided a strong guarantee for the implementation of the decisions and arrangements of the Party Central Committee. First, improve political awareness and solidly strengthen the political building of Party. The Leadership Party Group of MOF insisted on putting the Party’s political building first and thoroughly studied and implemented General Secretary Xi Jinping’s important exposition on the Party’s political building, which provided political guarantee for the fiscal work to implement the decisions and arrangements of the Party Central Committee. Second, enhance

political leadership and strengthen the Party's ideological building. The Leadership Party Group of MOF took it as a primary political task to study and implement Xi Jinping's Thoughts on Socialism with Chinese Characteristics for a New Era and the guiding principles of the 19th National Congress of the Communist Party of China, pushed forward the understanding and implementation of the key Party thoughts, and closely followed the ideological building of the Party Central Committee. Third, highlight political functions and strengthen the building of grass-root organizations. The Leadership Party Group of MOF firmly established a clear direction of strengthening the building of grass-root organizations, focused on improving organizational capacity, highlighted political functions, and strove to build grass-root Party organizations into strong bulwarks. Fourth, strengthen discipline and strictly build a clean and honest government. The Leadership Party Group of MOF conscientiously implemented the Party Central Committee's strategic plan for the comprehensive and strict governance of the Party and persevered in enforcing strict discipline. Fifth, keep problem-oriented and enhance the accountability of Party building. The Leadership Party Group of MOF firmly upheld Party building as the most important political task, earnestly implemented the accountability mechanism for grass-root Party building work, kept problem-

oriented, grasped the key links, and carried out the Party building work in a concrete, in-depth and solid way.

2. Liu Kun: government will tighten its belt and cut the general fiscal expenditures at the central level by 5%

At the Press Conference held at the Press Center of the Second Session of the 13th National People's Congress, Finance Minister Liu Kun said that the finance authorities should work on "addition, subtraction, multiplication and division" in order to implement a proactive fiscal policy with greater intensity and better performance as emphasized by Premier Li Keqiang in the *Report on the Work of Government*. First, work on "multiplication" to "lighten the burden of market entities and cultivate revenues", deploy tax and fee cut to energize market players, and strengthen the spending power of residents. Tax and fee cut is the top priority of the proactive fiscal policy in this year. Larger-scale tax cut and more significant fee reduction will be implemented to better guide corporate expectations, enhance market confidence and stabilize economic growth. Second, work on "addition" and step up fiscal expenditures. The fiscal expenditures exceeded 22 trillion RMB last year. In this year, we will continue to moderately expand the scale of fiscal expenditures, and set the central general public budget expenditures at 11.13 trillion RMB, an increase of

8.7% year on year, with a focus on increasing support for poverty alleviation, “agriculture, rural areas and farmers”, structural adjustment, technological innovation, eco-environmental protection and people’s livelihood. Third, work on “subtraction” and spend the saved money on people. The government will tighten its belt, vigorously reduce general expenditures, strictly curb the budget of the “three public expenses”, and eliminate inefficient and ineffective expenses. The central government will take the lead in strictly managing departmental expenditures. The general expenditures will be reduced by more than 5%, the “three public expenses” will be cut by about 3%, and the long-idling funds will be recovered. Fourth, work on “division”, remove the institutional hindrances, and comprehensively deepen the reform of the fiscal and tax system. In particular, it is necessary to fully implement budget performance management throughout the budget preparation and execution process, accelerate the pace of budget execution, enhance the monitoring of budget performance, and give full play to the role of fiscal funds. Fifth, to pursue a proactive fiscal policy with greater intensity and better performance, it is important to implement counter-cyclical adjustment, better apply market-oriented and rule-of-law methods, adopt reform measures, work hard to “consolidate, strengthen, enhance and smooth out” economic operation, and concentrate efforts on promoting China’s high-quality economic development.

3. Cai Fang: an unemployment rate of over 5% calls for more proactive macroeconomic policy response

Cai Fang, the Deputy of the National People’s Congress and the Vice President of the Chinese Academy of Social Sciences, said at the final “Deputy Channel” of the 2nd Session of the 13th National People’s Congress that placing employment-first policy at the macro policy level is an upgraded version of the employment-first policy, or the 3.0 edition of the proactive employment policy. At the same time, the macro policy system has also been upgraded and improved. The main basis for the formulation of macroeconomic policies in the past was the rate of economic growth and employment. The coefficient relationship between economic growth and employment expansion can be called employment elasticity. As China enters a new stage of economic development, the elasticity coefficient will also change. Instead of indirectly seeking employment targets, it is better to directly use employment as the basis for adjusting and implementing macroeconomic policies, thus developing an inherent connection between employment targets and macroeconomic policy objectives and means. The 5% surveyed urban unemployment rate mentioned by Premier Li Keqiang is a rate suggesting relatively full employment, i.e. such unemployment rate does not contain cyclical

factors and primarily indicates structural and frictional unemployment. Structural unemployment means that personal skills and the labor demand are not completely matched, so it takes a certain amount of time to train and upgrade skills of jobseekers; frictional unemployment means that demand for labor and the labor have not yet met, which is due to the function of the labor market and the mechanism of information transmission. Therefore, a proactive employment policy should be implemented to address structural and frictional unemployment, and improve market functions in terms of training, education, and provision of better public employment services, so that job seekers and employers can be better connected. At present, China faces a complicated external environment. Once the demand side is impacted and the economic growth rate is affected, economic growth may be lower than the potential growth and unemployment may rise. An unemployment rate of over 5% is a cyclical unemployment phenomenon. Therefore, more proactive macroeconomic, monetary and fiscal policies should be implemented. This is also the reason why the government work report set the employment target below the surveyed unemployment rate of 5.5%.

4. Liu Kun: new measures of proactive fiscal policy

At the 2019 Annual Meeting of the China Development Forum on March 24, Finance Minister Liu Kun said that the current Chinese economy has transitioned from a stage of high-speed growth to a stage of high-quality development, and is in a critical process of transforming the development model, optimizing the economic structure and shifting the growth drivers. In accordance with the requirements of the Central Economic Work Conference and the plan of the *Report on the work of Government*, this year's proactive fiscal policy will be strengthened to further enhance its important role in supporting the real economy, unlocking domestic demand potential, optimizing the economic structure, and improving people's well-being. First, implement a larger scale of tax and fee cut to support the development of real economy. In order to support the development of real economy, we must undergo the "subtraction" of government revenues in exchange for the "addition" of corporate benefits and the "multiplication" of market vitality. Last year, China's scale of tax cut and its share of the total economy were among the highest in the world. This year, a larger-scale tax cut and more significant reduction of fees will be implemented. The burden of corporate tax and social insurance contributions will be reduced by nearly 2 trillion RMB, which is significantly more than last year. Second, support the deepening of supply-side structural reforms and promote high-quality economic development. Deepening the

supply-side structural reforms is the fundamental way to adjust the economic structure and transform the economic development model, and is also the only way to improve the quality of the supply system and achieve high-quality development. While deploying the proactive fiscal policy to properly expand the domestic demand, we will continue to push forward supply-side structural reforms, adopt more reform measures, use more market-oriented and rule-of-law methods to ensure solid, enhanced and smooth economic performance, and work hard to improve the quality of China's economic growth. We will consolidate the outcomes of "cutting overcapacity, deleveraging, reducing inventory, lowering costs and strengthening weak links", continue to dispose of zombie enterprises, and speed up the exit of enterprises in overcapacity industries. Third, appropriately expand the scale of fiscal expenditures and promote the formation of a strong domestic market. Due to factors such as the downward pressure on the economy and the implementation of tax and fee cut, the growth rate of fiscal revenues will slow down this year, whereas the fiscal expenditures keep growing and the pressure on balanced budget will increase. Faced with the pressure of balanced budget, we will firmly stay mindful of the bottom line, further optimize the expenditure structure, use the limited funds on the key areas, and accurately focus on enhancing the support for the overall economic and social development of the country; carry out

budget performance management to ensure that "every penny" is spent well and used safely, and give full play to the role of fiscal funds to support the enforcement of policies. Fourth, strengthen policy support and financial support to resolutely win the three critical battles. We will fight the three critical battles of preventing and defusing major risks, precision poverty alleviation, and pollution prevention and control, which are all related to the overall development of the country, and are not only the realistic needs for solving development problems and promoting high-quality economic development, but also the necessary requirements for achieving the goal of building a moderately prosperous society in all respects. On the basis of consolidating the existing achievements, we will focus on outstanding problems, tackle the challenges head on, and concentrate efforts on fighting the key battles. Fifth, make every effort to ensure and improve people's wellbeing. Public finances are taken from the people and must be used for the people. The finance authorities should adhere to the people-centered thinking, highlight the public nature and fairness of public finance, and enable more people to share the benefits of reform and development in a fair way. This year, despite the pressure of balanced fiscal budget, we will ensure that spending on people's basic livelihood will only increase, and improve the design of expenditure policies and mechanisms in relevant fields in order to improve people's wellbeing.

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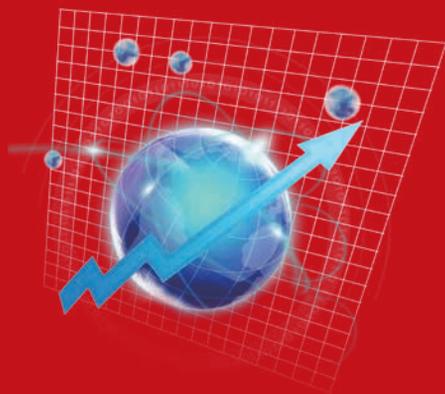
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