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HIGHLIGHTS

- Finance Minister Liu Kun: all parties of G20 must take into account the development needs of economies at different development stages
- Finance Minister Liu Kun met with Bruno Le Maire, Minister of Economy and Finance of France
- MOF published the *Measures for the Administration of Funds for Air Pollution Control*
- Three ministries jointly published an announcement on the improvement of tax policies related to house leasing
- The total profit of major industrial enterprises in China reached 3.4 trillion RMB from January to May

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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Website: <http://iefi.mof.gov.cn>

Acronyms

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ASEAN+3	Association of Southeast Asian Nations, China, Korea and Japan
BEPS	Base Erosion and Profit Shifting
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CAAC	Civil Aviation Administration, China
CAC	Cyberspace Administration, China
CAFS	Chinese Academy of Fiscal Sciences
CAREC	Central Asia Regional Economic Cooperation
CASS	Chinese Academy of Social Sciences
CBIRC	China Banking and Insurance Regulatory Commission
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
CSRC	China Securities Regulatory Commission
FDA	Food and Drug Administration
GAC	General Administration of Customs, China
GAMS	General Administration of Market Supervision, China
GAS	General Administration of Sport, China
GDP	Gross Domestic Product
IEFI	International Economics and Finance Institute, Ministry of Finance, China
IMF	International Monetary Fund
IPI	Industrial Production Index
IPR	Intellectual Property Rights
LICs	Low-Income Countries
MCA	Ministry of Civil Affairs, China
MCT	Ministry of Culture and Tourism, China
MEE	Ministry of Ecology and Environment, China
MIIT	Ministry of Industry and Information Technology, China
MNR	Ministry of Natural Resources, China
MOA	Ministry of Agriculture and Rural Affairs, China
MOE	Ministry of Education, China
MOF	Ministry of Finance, China
MOFCOM	Ministry of Commerce, China

MOHRSS	Ministry of Human Resources and Social Security, China
MOHURD	Ministry of Housing and Urban-Rural Development, China
MPS	Ministry of Public Security, China
MOST	Ministry of Science and Technology, China
MOT	Ministry of Transport, China
MVA	Ministry of Veteran Affairs, China
MWR	Ministry of Water Resource, China
NAO	National Audit Office, China
NBS	National Bureau of Statistics, China
NCP	New coronavirus pneumonia
NDB	New Development Bank
NDRC	National Development and Reform Commission, China
NEA	National Energy Administration, China
NFGA	National Forestry and Grassland Administration, China
NFSRA	National Food and Strategic Reserves Administration, China
NHC	National Health Commission of the People's Republic of China
NHSA	National Healthcare Security Administration, China
NMPA	National Medical Products Administration, China
NPC	National People's Congress, China
NRTA	National Radio and Television Administration, China
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, China
SAMR	State Administration of Market Regulation, China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council, China
SAT	State Administration of Taxation, China
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
VAT	Value-added Tax
WTO	World Trade Organization

I. Policy Update

1. MOF and the National Food and Strategic Reserves Administration jointly published the opinions on further advancing the high-quality food program

On June 29, MOF and the National Food and Strategic Reserves Administration jointly published the opinions on further advancing the high-quality food program, which provided the following. First, it is required to concentrate efforts on the “six enhancement actions” to advance the high-quality food program, i.e. the green food storage enhancement action, the food variety, quality and brand enhancement action, the food quality tracking enhancement action, the food machinery and equipment enhancement action, the food emergency response capability enhancement action, and the food loss and waste reduction and healthy consumption enhancement action. Second, it is important to consider factors such as the implementation plan for the local high-quality food program and the fiscal revenues and expenditures, and strengthen funding coordination, including the central government’s reward funds for grain-producing counties and food risk funds, so as to actively support the development of the high-quality food program. Third, it is necessary to continuously improve the methods of the use of fiscal funds, including “construction first, reimbursement later” and loan interest subsidies, and enhance coordination with other policies to effectively motivate private capital to increase investment, so as to build the synergy for joint participation in and further promotion of high-quality food program. Fourth, it is required to strengthen the supervision of fiscal funds, ensure the safety and regulated use of the funds, and continuously improve the efficacy in using the funds.

2. Three ministries jointly published the circular on expanding the scope of implementation of full cost insurance and planting income insurance for the three major food crops

On June 29, MOF, the Ministry of Agriculture and Rural Affairs, and the China Banking and Insurance Regulatory Commission jointly published a circular on

expanding the scope of implementation of full cost insurance and planting income insurance for the three major food crops, which provided the following. First, strengthen budgetary constraints. In principle, the increase ratio of the central government's premium subsidies for full cost insurance or planting income insurance shall be no greater than the increase ratio of budget. Second, the implementing areas are the major grain-producing counties in the 13 grain-producing provinces of Hebei, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Jiangsu, Anhui, Jiangxi, Shandong, Henan, Hubei, Hunan, and Sichuan. The number of counties eligible for subsidies in 2021 shall not exceed 60% of the total number of major grain-producing counties in the given province, and the subsidies will be extended to cover all major grain-producing counties in the implementing areas in 2022. Third, on the basis of the no-less-than 25% of provincial fiscal subsidies, the central government will subsidize 45% of the expenses for central, western and northeast regions, and 35% of the expenses for the eastern regions.

3. MOF published the *Measures for Performance Management on the Funds of Local Government Special Bond Projects*

On July 1, MOF published the *Measures for Performance Management on the Funds of Local Government Special Bond Projects*, which provided the following. First, local government special bonds refer to government bonds issued by the provincial government for public welfare projects with certain financial returns and repaid with corresponding governmental fund revenue or special program revenue, and may include new special bonds and special refinancing bonds. Second, performance targets will be set as a precondition for arranging special bond funds, the review of performance targets will be strengthened, and the reviewed performance targets will be approved and released along with special bond funds. Third, efforts will be made to track the achievement of the performance targets of special bond projects, funding for projects that seriously deviate from the performance targets will be suspended or stopped, and prompt rectification will be urged for. If the project cannot be implemented or there exist serious problems, the special bond funds shall be recovered in time and the use of the funds shall be adjusted according to the procedures.

4. Three ministries jointly published the guidelines on further improving weak links and advancing capacity enhancement in compulsory education

On July 5, the Ministry of Education, the National Development and Reform Commission, and MOF jointly published the guidelines on further improving weak links and advancing capacity enhancement in compulsory education, which provided the following. First, efforts should be made to ensure smooth coordination with the mid-term fiscal plan and other major plans, fully consider local financial affordability, and refine goals and work tasks by project and by year. Second, during the 14th Five-Year Plan period, the central government will continue to provide subsidies for further improving weak links and advancing capacity enhancement in compulsory education, with a focus on supporting the development of compulsory education in central and western regions as well as financially difficult areas in the eastern region. Third, it is required to strengthen the coordinated planning and use of relevant central government subsidies, increase provincial-level investment, optimize the expenditure mix, and do a good job in the overall planning and coordination of funds from various channels to prevent overlap or mismatch of funds and projects.

5. MOF and the Ministry of Agriculture and Rural Affairs jointly published the circular on implementing fishery support policies to promote high-quality fishery development

On July 5, MOF and the Ministry of Agriculture and Rural Affairs jointly published the circular on implementing fishery support policies to promote high-quality fishery development, which provided the following. First, to move with the trend of international fishery subsidies, direct cost subsidies will be abolished and subsidy methods will be changed to guide fishermen to conserve fishery resources. Second, the provincial governor responsibility system for general transfer payments will continue to be implemented, and key tasks such as advancing fishery reform and development and maintaining social stability in fishing areas will be carried out in a coordinated manner. Third, the fishery development subsidy funds will mainly support the key projects included in the national plan and help upgrade facilities and equipment for fishery safety; other general transfer payments will mainly support the

local government to boost high-quality fishery development in the region, and to provide fishery resource conservation subsidies for offshore fishing vessels that comply with regulations on fishery resource conservation. The level of subsidies, however, will be strictly controlled.

6. MOF published the *Measures for the Administration of Funds for Rural Environmental Treatment*

On July 6, MOF published the *Measures for the Administration of Funds for Rural Environmental Treatment*, which provided the following. First, the funds for rural environmental treatment refer to the special transfer payment funds made available by the central general public budget to support local government in carrying out rural ecological and environmental protection and improving rural ecological and environmental quality. Second, MOF is responsible for formulating fund allocation standards, reviewing fund allocation proposals, preparing draft budgets for such funds and issuing the budget. MOF will also organize the whole-process budget performance management, strengthen supervision over the management and use of funds, and provide guidance for local budget management. Third, projects to be supported will be openly selected on a merit basis through competitive evaluation. The central government will give appropriate rewards to the supported projects, and the total amount of funds for a single project of rural environmental treatment shall be no more than 300 million RMB.

7. MOF published the *Measures for the Administration of Funds for Soil Pollution Prevention and Control*

On July 7, MOF published the *Measures for the Administration of Funds for Soil Pollution Prevention and Control*, which provided the following. First, the funds for soil pollution prevention and control are made available by the general public budget of the central government and are specifically used to support local government in carrying out soil environmental risk management and control as well as comprehensive soil pollution prevention and control, in order to improve soil ecological and environmental quality. Second, MOF is responsible for formulating

fund allocation standards, reviewing fund allocation proposals, preparing draft budgets for such funds and issuing the budget. MOF will also organize the whole-process budget performance management, strengthen supervision over the management and use of funds, and provide guidance for local budget management. Third, a result-based approach will be adopted to appropriately adjust the allocation of such funds in light of the performance of fund utilization, the effects of ecological and environmental improvement, and the rate of budget implementation.

8. MOF published the *Measures for the Administration of Funds for Air Pollution Control*

On July 9, MOF published the *Measures for the Administration of Funds for Air Pollution Control*, which provided the following. First, the funds for air pollution control refer to funds made available by the central general public budget to support air pollution control and coordinated response to climate change. Second, the projects that support clean heating in the northern region in winter are openly selected on a merit basis through competitive evaluation by MOF and the Ministry of Ecology and Environment, cities commended by the General Office of the State Council for having achieved significant outcomes in ecological and environmental field will be provided with fixed-sum rewards, and regions where air quality has been significantly improved or excellent air quality is consistently maintained, institutional reform and innovation have made great headway, and the work on peaking emission and achieving carbon neutrality has achieved notable results, will also be provided with fixed-sum rewards. Third, MOF will review and determine the amount of funding arrangement for the provinces concerned, and release the funding budget for the year within 90 days after the annual approval of the central government budget by the National People's Congress.

9. MOF published the circular on the matters related to the administration of central fiscal subsidy funds for allowances to the families of compulsory servicemen

On July 13, MOF published the circular on the matters related to the administration of

central fiscal subsidy funds for allowances to the families of compulsory servicemen, which provided the following. First, the central finance authorities shall calculate and distribute central fiscal subsidy funds based on the number of conscripted servicemen and per capita subsidy standards in provinces, regions, and municipalities. The distribution formula is: the amount of central fiscal subsidies in a province, region and municipality = (the number of conscripted servicemen in a province, region and municipality in a given year + the number of conscripted servicemen in a province, region and municipality in the previous year) × the per capita subsidy standard of the central finance authorities; local finance authorities at all levels shall promptly allocate subsidies from the central government, and calculate and distribute the subsidies that should be made available by the local finance authorities, so as to ensure that the allowances to the families of compulsory servicemen are paid on time and in full. Second, the subsidy funds made available by central finance authorities shall be used for the allowances provided by the local government to the families of compulsory servicemen during their active service period. Third, the central financial subsidy funds for families of compulsory servicemen will remain valid through December 31, 2025.

10. MOF published the *Measures for Administration of Special Funds for Central-level Scientific Institutions to Improve Scientific Research Conditions*

On July 16, MOF published the *Measures for Administration of Special Funds for Central-level Scientific Institutions to Improve Scientific Research Conditions*, which provided the following. First, the special funds are intended to support the repair, maintenance and upgrade of premises for scientific research and auxiliary facilities for scientific research that have been used continuously for more than 15 years and are no longer able to meet the needs of scientific research work (the service life requirements may be relaxed where appropriate for premises for scientific research and auxiliary facilities for scientific research under such special conditions as high salt, high humidity, low temperature and high altitude); maintenance and upgrade of infrastructure such as water, heating, electricity and gas; purchase of scientific instruments and equipment as well as literature and documents that directly serve scientific research work; function expansion and technology upgrade of independently

developed instruments and equipment that deploy mature technology and are used for scientific research, or instruments and equipment that retain relatively high value of usage and directly serve scientific research work. Second, it is required to review the projects applied by the competent departments, and the approved projects will be incorporated into the project pipeline supported by the budget. The project budget will be determined and released to competent departments in accordance with the relevant requirements of departmental budget management. Third, carryover and surplus of special funds shall be administered in accordance with the relevant regulations of MOF regarding the management of carryover and surplus funds.

11. MOF published the circular on issuing the 2021 budget of rewards and subsidies for county-level basic funding capacity guarantee mechanism

On July 19, MOF published the circular on issuing the 2021 budget of rewards and subsidies for county-level basic funding capacity guarantee mechanism, which provided the following. First, the provincial finance authorities must earnestly assume the principal responsibility, reasonably calculate and allocate the central government's rewards and subsidies for county-level basic funding capacity guarantee, strengthen funding support for the "three priorities" and other key areas, and continue to ensure that the fiscal expenditures on the "three priorities" be secured in the first place. Second, it is important to increase support for the grassroots government, especially for areas with financial difficulties, effectively improve the basic funding capacity at the county level, and secure the bottom line of the "three priorities". Third, finance authorities at the grassroots level shall use the funds directly allocated from the central government to the benefit of enterprises and people. When distributing funds to departments and specific projects, if the funds include those directly allocated from central government as well as those from other sources, finance authorities at the grassroots level should separately present the detailed sources of funds in budget indicator documents and indicator management system, separately log them in the indicator system, and place the funds directly allocated from the central government under the direct funds monitoring system.

12. State Council published the circular on the plan of division of labor for the key tasks identified in the national video and telephone conference on deepening reform of “streamlining administration, delegating powers and improving services” and fostering and unleashing the dynamism of market entities

On July 21, the State Council published the circular on the plan of division of labor for the key tasks identified in the national video and telephone conference on deepening reform of “streamlining administration, delegating powers and improving services” and fostering and unleashing the dynamism of market entities, which provided the following. First, it is required to improve the regular mechanism for directly allocating fiscal funds from the central government, strengthen tracking and monitoring of the allocation and use of funds, and ensure efficient use of directly allocated funds at the grassroots level in compliance with rules and regulations. Second, it is important to deploy inclusive policies such as tax incentives to encourage R&D and innovation of enterprises, and increase support for innovation and business startup. Third, efforts will be made to carry out the special inspection on illegal charges on enterprises, and seriously investigate and deal with cases of unauthorized charges, the hike of charge standards, expansion of charge scope, and arbitrary apportionment for fees. Fourth, it is crucial to strengthen the alignment with relevant international rules, and take the opportunity of signing and joining the RCEP to enforce higher standards in trade and investment liberalization and facilitation, intellectual property protection, e-commerce, government procurement, etc.

13. Three ministries jointly published an announcement on the improvement of tax policies related to house leasing

On July 26, MOF, the State Administration of Taxation and the Ministry of Housing and Urban-Rural Development jointly published an announcement on the improvement of tax policies related to house leasing, which provided the following. First, house leasing enterprises refer to the enterprises that report to or file record with the housing and urban-rural development authorities for business operations in accordance with regulations and engage in house leasing business. Second, general taxpayers of VAT in house leasing enterprises may choose to apply the simplified

taxation method for all the rental income obtained by renting houses to individuals, and calculate and pay VAT at the reduced rate of 1.5% on the basis of the 5% rate, or may calculate and pay VAT by applying the general taxation method; small-scale taxpayers of VAT in house leasing enterprises may calculate and pay VAT at the reduced rate of 1.5% on the basis of the 5% rate for renting houses to individuals; house leasing enterprises that apply the above simple taxation method when leasing houses to individuals and make pre-payment may prepay VAT at the reduced pre-payment rate of 1.5%. Third, enterprises, public institutions, social organizations and other organizations that rent houses to individuals and specialized large-scale house leasing enterprises may pay the real estate tax at a reduced rate of 4%.

14. MOF published a circular on deepening the reform of “separation of permits from business licenses” in the bookkeeping agencies to further stimulate the vitality of market entities

On July 28, MOF published a circular on deepening the reform of “separation of permits from business licenses” in the bookkeeping agencies to further stimulate the vitality of market entities, which provided the following. First, the administrative examination and approval of the qualification of bookkeeping agencies shall be reformed nationwide by following the “notification and promise” approach, and at the same time, reforms should be further intensified in the pilot free trade zones to pilot the cancellation of administrative examination and approval for the qualification of bookkeeping agencies. Second, it is important to innovate and strengthen the daily supervision of bookkeeping agencies, clarify the principal entities responsible for supervision, conduct thorough survey of bookkeeping agencies to be supervised, improve the supervision and inspection system, establish an integrity management system, strengthen annual filing management, and give full play to the industry’s self-discipline functions. Third, it is necessary to closely follow the progress of reforms in the pilot free trade zones, take stock of and evaluate the pilot reforms, adjust and improve policies and measures, and generate typical experiences and practices that can be replicated and scaled up.

II. Facts & Figures

1. The total profit of major industrial enterprises in China reached 3.42474 trillion RMB from January to May

The data published by the National Bureau of Statistics on June 27 showed that the total profit of major industrial enterprises in China reached 3.42474 trillion RMB from January to May, a year-on-year increase of 83.4%. Among the major industrial enterprises, the total profit of state-owned and controlled enterprises was 1.10499 trillion RMB, a year-on-year increase of 1.5 times; the total profit of joint-stock enterprises was 2.4133 trillion RMB, an increase of 86.5%; total profit of foreign, Hong Kong, Macao and Taiwan-invested enterprises was 939.44 billion RMB, an increase of 80.8 %; and total profit of private enterprises was 1.0198 trillion RMB, an increase of 56.3%.

2. China's manufacturing PMI in June was 50.9%

The data published by the National Bureau of Statistics on June 30 showed that China's manufacturing PMI in June was 50.9%, a slight drop of 0.1 percentage points from the previous month. By the size of enterprises, the manufacturing PMI of large and medium-sized enterprises was 51.7% and 50.8% respectively, down by 0.1 and 0.3 percentage points from the previous month, and both were above the critical point; the manufacturing PMI of small-sized enterprises was 49.1%, a decrease of 0.3 percentage points from the previous month, and was below the critical point. In terms of sub-indexes, among the five sub-indexes that make up the manufacturing PMI, the production index and the new order index were all above the critical point, and the raw material inventory index, the employee index, and the supplier's delivery time index were all below the critical point.

3. Lottery sales in China reached 30.202 billion RMB in May

The data published by MOF on July 6 showed that lottery sales in China reached 30.202 billion RMB in May, an increase of 983 million RMB, or up by 3.4% year on

year. Among them, welfare lottery sales were 11.318 billion RMB, a year-on-year decrease of 2.694 billion RMB, or down by 19.2%; sports lottery sales were 18.884 billion RMB, a year-on-year increase of 3.675 billion RMB, or up by 24.2%.

4. China's CPI rose by 1.1% year on year in June

The data published by NBS on July 9 showed that China's CPI rose by 1.1% year on year in June. Among them, prices in urban areas rose by 1.2%, and prices in rural areas rose by 0.7%; food prices fell by 1.7%, and non-food prices rose by 1.7%; consumer goods prices rose by 1.1%, and service prices rose by 1.0%. The CPI fell by 0.4% month on month. Among them, prices in urban areas fell by 0.4%, and prices in rural areas fell by 0.5%; food prices fell by 2.2%, and non-food prices remained flat; consumer goods prices fell by 0.6%, and service prices fell by 0.1%.

5. China's industrial PPI rose by 8.8% year on year in June

The data published by NBS on July 9 showed that China's industrial PPI rose by 8.8% year on year in June. Among them, prices of extractive industries rose by 35.1%, prices of raw material industries rose by 18.0%, prices of processing industries rose by 7.4%, prices of food rose by 1.4%, prices of apparel fell by 0.8%, prices of general daily necessities rose by 0.3%, and prices of consumer durables fell by 0.6%.

6. Per capita disposable income of Chinese residents reached 17,642 RMB in the first half of 2020

The data published by NBS on July 15 showed that per capita disposable income of Chinese residents reached 17,642 RMB in the first half of 2020, up by 12.6% year on year, or a real increase of 12.0% after adjusting for price factors. In terms of disposable income in urban and rural areas, per capita disposable income of urban residents was 24,125 RMB, up by 11.4% year on year, or a real increase of 10.7% after adjusting for price factors; and per capita disposable income of rural residents was 9,248 RMB, up by 14.6% year on year, or a real increase of 14.1% after adjusting for price factors.

7. Per capita consumption expenditure of Chinese residents reached 11,471 RMB in the first half of 2020

The data published by NBS on July 15 showed that per capita consumption expenditure of Chinese residents reached 11,471 RMB in the first half of 2020, up by 18.0% year on year, or a real increase of 17.4% after adjusting for price factors. In terms of consumption expenditure in urban and rural areas, per capita consumption expenditure of urban residents was 14,566 RMB, up by 16.7% year on year, or a real increase of 16.0% after adjusting for price factors; and per capita consumption expenditure of rural residents was 7,464 RMB, up by 20.2% year on year, or a real increase of 19.7% after adjusting for price factors.

8. China's cumulative general public budget revenue in the first half of the year reached 11.7116 trillion RMB

The data published by MOF on July 20 showed that China's cumulative general public budget revenue in the first half of the year reached 11.7116 trillion RMB, a year-on-year increase of 21.8%. Among them, the central general public budget revenue was 5.4624 trillion RMB, a year-on-year increase of 23.2%; the local general public budget revenue was 6.2492 trillion RMB, a year-on-year increase of 20.6%. Nationwide tax revenue was 10.0461 trillion RMB, a year-on-year increase of 22.5%; non-tax revenue was 1.6655 trillion RMB, a year-on-year increase of 17.4%.

9. China's cumulative general public budget expenditure in the first half of the year reached 12.1676 trillion RMB

The data published by MOF on July 20 showed that China's cumulative general public budget expenditure in the first half of the year reached 12.1676 trillion RMB, a year-on-year increase of 4.5%. Among them, the central general public budget expenditure was 1.5216 trillion RMB, a year-on-year decrease of 6.9%; the local

general public budget expenditure was 10.646 trillion RMB, a year-on-year increase of 6.4%.

10. China issued 794.9 billion RMB of local government bonds in June

The data published by MOF on July 26 showed that China issued 794.9 billion RMB of local government bonds in June. Among them, 234.4 billion RMB were general bonds, and 560.5 billion RMB were special bonds; by purposes of issuance, 533.5 billion RMB were new bonds, and 261.4 billion RMB were refinancing bonds. The average maturity of local government bonds was 12.2 years, including 8.6 years for general bonds and 13.7 years for special bonds; the average interest rate was 3.46%, including 3.33% for general bonds and 3.51% for special bonds.

11. China's cumulative local government debt balance from January to June reached 27.5849 trillion RMB

The data published by MOF on July 26 showed that China's cumulative local government debt balance from January to June reached 27.5849 trillion RMB. Among them, general debts were 13.4841 trillion RMB, and special debts were 14.1008 trillion RMB; government bonds were 27.4098 trillion RMB, and government debts in the form of non-government bonds were 175.1 billion RMB. The average remaining maturity of local government bonds was 7.2 years, including 6.4 years for general bonds and 7.9 years for special bonds; the average interest rate was 3.52%, including 3.52% for general bonds and 3.52% for special bonds.

12. Total operating income of SOEs in China from January to June reached 35.41431 trillion RMB

The data published by MOF on July 27 showed that total operating income of SOEs in China from January to June reached 35.41431 trillion RMB, a year-on-year

increase of 27.7%. Among them, the operating income of central SOEs was 19.93112 trillion RMB, a year-on-year increase of 25.4%; the operating income of local SOEs was 15.48319 trillion RMB, a year-on-year increase of 30.7%.

13. Total profit of SOEs in China from January to June reached 2.38831 trillion RMB

The data published by MOF on July 27 showed that total profit of SOEs in China from January to June reached 2.38831 trillion RMB, a year-on-year increase of 1.1 times. Among them, the profit of central SOEs was 1.58658 trillion RMB, a year-on-year increase of 1 fold; the profit of local SOEs was 801.73 billion RMB, a year-on-year increase of 1.5 times.

III. MOF Events

1. On July 5, Finance Minister Liu Kun met with Bruno Le Maire, Minister of Economy and Finance of France, virtually. The two sides exchanged views on the solution for taxation of the digital economy, the G20 debt agenda, etc. Vice Finance Minister ZouJiayi also attended the meeting.

2. From July 9 to 10, Finance Minister Liu Kun attended and addressed the G20 Finance Ministers and Central Bank Governors meeting via video link. Participants at the meeting discussed issues including the global economy and health, international financial architecture, policies for economic recovery, sustainable finance, international taxation and financial sector issues. A communiqué was issued at the end of the meeting. During the meeting, Minister Liu was also invited to attend the G20 High-level Tax Symposium on Tax Policy and Climate Change, at which he outlined the effective fiscal and tax measures China has implemented with tangible achievements in response to climate change. Vice Finance Minister ZouJiayi also participated in the events.

3. On July 13, Finance Minister Liu Kun met with Johannes Hahn, European Commissioner for Budget and Administration, via video link, and exchanged views on Next Generation European Union (NGEU), China-EU relations, and China-EU macroeconomic situation. The two sides also conducted in-depth exchanges on taxation of economic digitalization as well as fiscal and tax policies for addressing climate change. Vice Finance Minister ZouJiayi also attended the meeting.

4. On July 14, Vice Finance Minister Liao Min met with a business delegation from AmCham China. The two sides exchanged views on the China-US macroeconomic situation, China-US economic and trade relations, and US companies' operations in China.

IV. Local Finance

1. Hubei Finance: mobilizing all forces and making an all-out effort to advance integrated budget management in Ezhou City

According to the news released by the Finance Department of Hubei Province on June 28, finance authorities of Ezhou City have made an all-out effort to advance integrated budget management. First, they have provided financial support in advance and prioritize funding for mandatory expenditures related to the “three priorities” and government debt repayment, and emergency expenditures, so as to clear the potential hurdles to integrated budget management. Second, they have worked with the fiscal payment system software company to build a temporary payment platform before the closure of the formal fiscal payment system, in order to safeguard the spending on areas related to people’s livelihood during the closure period. Third, they have managed to take the initiative to regulate the budget management system, revise and improve the relevant local budget management regulations, draft the list of rules and regulations to be revised, and launch the revision of related rules and regulations.

2. Ningxia Finance: taking a focused and innovative approach to advance ecological protection of the Yellow River Basin and make Ningxia a pioneering region in high-quality development

According to the news released by the Finance Department of Ningxia Hui Autonomous Region on June 30, finance authorities of Ningxia have made solid efforts to ensure stability on the six fronts and maintain security in the six areas, resolutely fight the battle against pollution, and further promote the ecological protection of the Yellow River Basin. First, they worked to improve the fiscal policies to promote ecological protection and high-quality development of the Yellow River Basin, implement the tax sharing policies, and advance the overhaul of environmental protection fees for taxes and the reform of water resources taxes. Second, they stepped up efforts to steadily increase fiscal spending on ecological and environmental protection, effectively improve the financial capacity of the

governments of key ecological function areas and counties (districts), and consolidate the financial resources for key areas such as ecological and environmental protection in cities and counties. Third, they strengthened the funding mechanism for major projects, and accurately targeted projects for funding.

3. Ningxia Finance: effectively performing fiscal functions to boost scientific and technological capacity in order to pioneer in high-quality development

According to the news released by the Finance Department of Ningxia Hui Autonomous Region on July 5, finance authorities in Ningxia have sought to enable enterprises to play a principal role in innovation and to boost scientific and technological capacity, in order to strengthen support for ecological protection of the Yellow River Basin and pioneer in high-quality development. First, they stepped up their efforts to curb general expenditures, and concentrate financial resources on meeting the funding needs for scientific and technological innovation. Second, they worked to improve the policy of post-R&D subsidies and rewards for enterprises, and support enterprises for further scaling up investment in R&D and continuously boost R&D capacity with the guidance of fiscal funds. Third, they put in place a mechanism for scientific and technological cooperation between eastern and western regions, and took concrete measures to increase fiscal support for enterprises, universities and research institutes in Ningxia to carry out scientific and technological cooperation with the eastern region and other developed provinces and regions.

4. Shanxi Finance: working on six fronts to advance departmental budgeting in 2022

According to the news released by the Finance Department of Shanxi Province on July 8, finance authorities in Shanxi have fully supported the transformative development and reforms in priority areas by following the principles of “pursuing overall planning, exercising diligence and thrift, acting within the limits of capacity, highlighting performance, and seeking a balanced budget”. First, they will further reduce general expenditures, rigorously formulate expenditure policies and institutional measures, and give full consideration to financial affordability. Second,

they will fully implement zero-based budgeting, restructure the expenditure mix, and effectively improve the efficacy of fiscal expenditure. Third, they will actively develop project pipelines, meticulously manage projects, and compile annual budgets in line with project implementation conditions and fund appropriation progress. Fourth, they will make efforts to coordinate fiscal funds with departmental funds, coordinate funds within one department, coordinate funds across departments, and coordinate central government funds with provincial funds. Fifth, adjusted and standardized the funding standards of some units and projects, expand the scope of performance target setting, improve the quality of performance target setting, strengthen the review of projects to be included in the project pipeline, and step up performance information disclosure. Sixth, they made good use of an integrated budget management system and simplified the procedures by adjusting the performance management authority.

5. Anhui Finance: building a regular high-quality budget performance evaluation system

According to the news released by the Finance Department of Anhui Province on July 12, the Finance Bureau of Hefei City has taken a holistic and comprehensive approach to advance performance evaluation work, and strived to build a regular high-quality performance evaluation system. First, they explored ways to establish indicator and standard systems for government procurement, government procurement services and other specific fields involving fiscal inputs, with steps to gradually improve the budget performance standard system by industry and field. Second, they aimed to build up a closely connected mechanism featuring “organization by finance authorities + unit self-evaluation + expert review”, to conduct self-evaluation in strict accordance with performance targets. Third, they took the lead in carrying out ex-ante performance evaluation of new major projects and policies, and use the results of the evaluation as an important basis for budgetary arrangements. Fourth, they planned to establish a feedback mechanism for evaluation results and an accountability system for problem rectification, so as to continuously improve the quality of performance evaluation.

6. Inner Mongolia Finance: working on multiple fronts to continuously optimize the business environment

According to the news released by the Finance Department of Inner Mongolia Autonomous Region on July 15, the government of Baotou City has vigorously deployed the “internet + supervision” to continuously optimize the business environment. First, they decided to cancel the requirements for the deposit, allow for prepayment, and assist suppliers in the financing, in order to foster an inclusive and mutually trusted business environment for all. Second, purchasers were required to expedite work in each link of procurement on the basis of meeting the statutory time limit for the procurement process; maximize policy support for micro and small enterprises; and effectively implement the government procurement policy to create a diverse and win-win market environment. Third, they worked to ensure “zero errands and bid-opening without in-person meeting”, make public evaluation scores and rankings, and create a pragmatic, transparent and efficient environment for government procurement. Fourth, they stepped up efforts to promote fair competition through creditworthiness evaluation, realize interoperability and sharing between platforms, and to create a fair, just, transparent and law-based environment.

7. Zhejiang Finance: building a sound framework, carrying out result-based management and deploying digital technology to strengthen fiscal management at the grassroots level

According to the news released by the Finance Department of Zhejiang Province on July 21, the Finance Bureau of Huzhou City has actively promoted the regulated management of public finance at the grassroots level through the formation of policies and rules, result-based management and application of digital technologies. First, they made good use of subsidies for township officials and effectively enhanced the safety and performance of township fiscal funds. Second, they made full use of the existing township public fiscal service platform to administer the provision of agricultural subsidies and livelihood subsidies under the township public fiscal service platform and the “all-in-one card”. Third, they relied on the FOA intranet communication system to communicate fund supervisory information through the intranet mailbox of

the township finance office, so as to realize timely and comprehensive communication of information related to the receipt and allocation of township fiscal funds.

8. Liaoning Finance: setting up six mechanisms to firmly secure the bottom line of the “three priorities”

According to the news released by the Finance Department of Liaoning Province on July 23, finance authorities of Liaoning have made efforts to put in place six mechanisms in order to resolutely prevent the risks associated with the “three priorities” at the grassroots level. First, they have stepped up efforts to increase financial support for the lower level government, establish an adequate funding mechanism, adjust the allocation approach of equalization transfer payments in 2021 that prioritizes financially difficult regions, carry out county and district-based calculation and allocation of funds, and directly allocate funds to counties and districts to improve the financial capacity of counties and districts. Second, they decided to review the budget related to the “three priorities” county by county, and establish a budget review mechanism to ensure that all the expenditures related to the “three priorities” as calculated according to local standards are included in the budgetary arrangement. Third, they intensified efforts to designate personnel for work in specific areas, and establish a dynamic monitoring mechanism to achieve early warning and early response. Fourth, they adopted measures to carry out precise treasury operations, establish a treasury fund management mechanism to monitor the balance of city-and-county treasury funds on a daily basis, send reminders to cities with low levels of treasury funds every month, and carry out “point-to-point” fund schedule. Fifth, the provincial finance department worked to establish an emergency response mechanism, setting up an emergency working capital fund for grassroots level “three priorities” to provide emergency funding support for the temporary payment risks arising from the “three priorities” in counties and districts. Sixth, they managed to conduct notifications and interviews in a timely manner, establish an incentive and restraint mechanism, link the “three priorities” in localities with the allocation of transfer payment funds from above the provincial level, and offer appropriate rewards to areas with outstanding performance in the work on the “three priorities”.

9. Gansu Finance: earnestly enforce the campaign of “delivering for the people”

According to the news released by the Finance Department of Gansu Province on July 27, Finance Bureau of Jiayuguan City has made every effort to enforce the campaign of “delivering for the people” so as to address problems faced by people in their daily life and deliver real benefits to the people. First, they made continuous efforts to provide targeted assistance, promote the marketing of agricultural products, and offer guidance for industrial layout. Second, they mobilized funds from multiple channels, to narrow the financing gap in government-invested projects, and ensure efficient and adequate funding for key projects related to people’s livelihood. Third, they worked to strengthen the long-term mechanism of “all-in-one card” in providing fiscal subsidies for farmers and agriculture, set up and gradually optimize such platform, so that the subsidy funds could be disbursed accurately to households and farmers.

10. Guangxi Finance: introduce measures for the administration of fiscal subsidy funds in the transition period to promote rural revitalization

According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on July 28, finance authorities of Guangxi have introduced measures for the administration of fiscal subsidy funds in the transition period to promote rural revitalization. First, finance authorities of Guangxi actively urged all localities to effectively manage and make good use of fiscal subsidies in the transition period in accordance with the rules and measures introduced by the central and provincial government as well as the policy requirements on the consolidation of agriculture-related funds for counties lifted out of poverty. Second, finance authorities of Guangxi continued to delegate the approval authority for funds and projects to counties, and guide localities to scientifically plan projects based on local needs, with a focus on the follow-up support for relocation aimed at poverty alleviation, cross-provincial employment assistance for laborers just lifted out of poverty, and cultivation of industries with local features and advantages, especially on increasing the proportion of funds for industrial projects. Third, finance authorities of Guangxi earnestly implemented their fiscal responsibilities, and urged all local governments and departments to speed up expenditures, and meet the spending targets by the end

of 2021.

V. Remarks & Opinions

1. Gao Peiyong: being mindful of unwanted scenarios while implementing the new development philosophy

On June 24, Gao Peiyong, Vice President of the Chinese Academy of Social Sciences, said at the 2021 Caixin Summer Summit that in the new development stage, we must focus on both development and security, persisting in these efforts in a more coordinated way. To implement the new development philosophy in the new development stage, we should stick to the fundamental purpose of the new development philosophy, take a problem-oriented approach to the implementation of the new development philosophy, and in particular, be concerned with future uncertainties in the implementation of the new development philosophy.

In the new stage of development, the development environment has undergone profound and complex changes. Development in the past progressed with tailwind, nevertheless, development at present is experiencing headwind; constraints faced by development in the past were mainly material, but constraints faced by development at present are mainly in transition to the spiritual aspect; development in the past was mostly complementary with other countries and regions, whereas development at present is more or less in competition with other countries and regions. Therefore, to implement the new development philosophy in the new development stage, it is necessary to take into account the worst scenario and work for the best. In this context, in keeping with the new development philosophy, we must understand the bottom line and bear in mind the potential risks, i.e. to take a coordinated approach for pursuing both development and security.

2. Zhang Yuyan: eight major problems facing the current world economy

On July 1, Zhang Yuyan, member of the Chinese Academy of Social Sciences and Director of the Institute of World Economics and Politics, pointed out that the world

economy is currently faced with eight major problems. First, the monetary policy arsenal is basically depleted. Questions such as whether, when and how fast should unconventional monetary policies, such as quantitative easing, control of yield curve, negative or zero interest rate, targeted lending by large banks, and helicopter money, be normalized have become the major source of macro policy uncertainty. Second, the key to evaluating the effectiveness of the implementation of the new monetary policy framework in major developed economies lies in how the central bank responds to the challenges brought about by persistently low equilibrium interest rates. Third, inflation expectations have risen. There exists inflationary pressure in the short term, and the pressure may increase further, nevertheless, in the medium to long term, prices in developed economies will remain stable at a low to middle level. Fourth, on the trend of the US dollar, the direct factor affecting the trend of the US dollar, in the short term, is the magnitude and speed of the adjustment of the US monetary policy. The monetary policy adjustment and recovery trajectory of other economies will also affect the ratio of their currencies to the US dollar. Fifth, on the global supply chain, one of the main objectives of supply chain adjustment is to reduce dependence on China or to lock China in the global value chain system. Sixth, on asset prices, the weak recovery is in parallel to the rapid rise in asset prices. The fluctuations in the capital markets of major economies are bound to have negative spillover effects on other countries and regions, and thus may generate negative feedback. Seventh, on the global and regional governance, WTO reform and improvement are still at a stalemate. Following the further coordination of positions among the US, Europe and Japan in the second half of the year, they may unite with their partner countries to vigorously push ahead with their proposal. The possibility of the new US administration forming an alliance to further isolate China cannot be ruled out, and measures including restricting China's legitimate rights and interests in the WTO, and even excluding China from the WTO reform process, might be taken by them. Eighth, numerous institutions have predicted that the bulk commodity market will go up by more than 40% in 2021, and the current surges roughly in line with expectations. Of course, the margin of increase of different varieties of commodities may vary, and the profit and loss of importing countries and exporting countries will also be very different.

3. Liu Kun: all parties of G20 must take into account the development needs of

economies at different development stages

From July 9 to 10, Finance Minister Liu Kun attended and addressed the G20 Finance Ministers and Central Bank Governors meeting via video link. Liu Kun stressed that the world economy is recovering, but the recovery is notably uneven and highly uncertain. President Xi Jinping pointed out at the Global Health Summit that it is imperative to address the issues concerning vaccine production and distribution and to make vaccines more available and affordable in developing countries. China has provided more than 480 million doses of vaccines to nearly 100 countries and is willing to continue to work with all parties to close the “immunity gap”. All parties should adopt responsible macroeconomic policies, strengthen coordination among them, and avoid negative spillover effects. At the same time, they should unswervingly build an open economy and advance structural reforms to achieve strong, sustainable, balanced and inclusive growth. Liu Kun highlighted that since the beginning of this year, China has earnestly implemented the extended DSSI, and pushed for the formal launch of the implementation of the *Common Framework*, making important contributions to supporting vulnerable economies with practical actions. China remains committed to multilateral cooperation with an open attitude and willingness to cooperate. China supports the efforts to reach a consensus on the key elements of a multilateral solution to address the tax challenges of economic digitalization, and supports the conclusion of a more stable and balanced final consensus-based plan with two pillars. In the follow-up design of a detailed plan, all parties of G20 must take into account the development needs of economies at different development stages, properly handle the major concerns of various countries, limit the negative impact on substantive economic activities, and strive to reach a full consensus on schedule.

4. Jia Kang: a two-pronged approach should be taken to forestall and control hidden debt risks

On July 21, Jia Kang, President of China Academy of New Supply-side Economics, delivered a keynote speech on Local Development Strategy, Debt Financing and High-quality Transformation of Local Platform Companies in the Process of China’s

Modernization, pointing out that a two-pronged approach should be taken to forestall and control hidden debt risks. First, under the premise of a flat government and fiscal management system, supporting reforms need to be advanced by following the principles of “keeping political power, administrative power, fiscal power, tax base, budgeting, property rights and borrowing rights well balanced and matched at a horizontal government level” plus “top-down transfer payment at a vertical level of the central and provincial governments”, in order to achieve institutional innovation and gradually move towards “fully transparent financing”. Second, it is crucial to ensure the issuance conditions, procedures, approval requirements, supervision, and performance evaluation requirements of local government bonds are strictly met and followed, in order to further replace hidden debts with regulated local government bonds and municipal bonds. Third, it is important to prepare national and local government balance sheets in a more professional manner; actively reduce some local government debts through public-private partnerships in the process of reform and innovation; develop risk response mechanisms such as debt service fund, and further optimize the regulatory mechanism of local financing platforms involving multi-departmental coordination and collaboration and advance the transformation of platform companies, so as to maximize their benefits, minimize their negative effects, and better prevent and control their associated risks.

5. Liu Shangxi: rethinking cost reduction from the perspective of macro uncertainty and public risks

On July 24, Liu Shangxi, President of the Chinese Academy of Fiscal Sciences, delivered a speech at the China Fortune Forum, stating that the focus of cost reduction should be shifted from a micro and physical perspective to a perspective of macro uncertainty and public risks. Only when the overall macro uncertainty becomes more certain and the level of public risks drops could multiples problems be resolved. Liu Shangxi pointed out that from a medium and long-term perspective, the current economic situation is characterized by high costs, which is reflected in the across-the-board rise in production costs, living costs, business startup costs, investment costs, environmental costs, and regulatory costs, etc. In terms of development stage, China is akin to climbing a mountain. The higher it climbs, the

greater the uncertainty and risks. And these risks will be converted into corresponding costs. At the same time, the entire world and mankind have also entered a new stage, and the basic feature of this stage is uncertainty. Under the current circumstances, only when the overall macro uncertainty is reduced and the level of public risks falls can the costs be truly lowered. And micro costs and costs of enterprises can only come down by reducing macro costs. At present, China has adopted quite a few policy measures that target physical elements and micro entities, and those measures have paid off to a certain extent. However, reducing costs from a micro and physical perspective often results in a “seesaw” effect, which may bring about marginal decline in policy effects. For example, in recent years, tax and fee cut has increasingly intensified. Although this is necessary at a certain stage such as in the context of the pandemic, it cannot be a long-term process, let alone a continuous process over the long run. Liu Shangxi emphasized that the direction of cost reduction in China should be changed, and cost reduction should be considered from the perspective of macro uncertainty and public risks instead of from the micro and physical perspective. Only when the macro uncertainty becomes more certain and the level of public risks drops can multiple problems be resolved. From a fiscal point of view, what is more important is to hedge against uncertainty and aim at addressing greater uncertainty and public risks, so as to mitigate the various risks of uncertainty faced by enterprises.

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