

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun: BRICS members should enhance coordination and collaboration on climate change, digital infrastructure investment and other agenda
- Finance Minister Liu Kun attended and addressed the virtual BRICS Finance Ministers and Central Bank Governors' Meeting
- The State Council demanded that policies be earnestly implemented and cross-cyclical adjustments be strengthened in response to new economic developments
- Five ministries jointly published a circular on promoting the healthy development of the bond market credit rating industry
- China's industrial PPI rose by 9% year on year in July

## 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. Five ministries jointly published a circular on promoting the healthy development of the bond market credit rating industry**

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On August 9, the People's Bank of China, the National Development and Reform Commission, MOF, the China Banking and Insurance Regulatory Commission and the China Securities Regulatory Commission jointly published a circular on promoting the healthy development of the bond market credit rating industry, which provided the following. First, it is required to strengthen the development of the rating methodology system, establish a long-term rating quality verification mechanism centered on default rate, and enhance the rating quality and differentiation. Second, credit rating agencies should improve the corporate governance and internal control mechanism, strengthen the firewall mechanism and the internal control and supervision mechanism, and ensure the independence of credit ratings. Third, it is required to establish a sound market-based and investor-oriented evaluation system centered on rating quality, strengthen information disclosure, and beef up market restraint mechanisms. Fourth, efforts should be made to optimize the rating ecology, adjust the regulatory policy regarding the grade threshold of investable bonds for various funds when appropriate, and create a fair and just market environment. Fifth, it is required to strengthen the coordination mechanism between regulatory agencies, conduct strict supervision and administration of credit rating agencies, and step up penalties in case of violation of laws and regulations.

### **2. The State Council demanded that policies be earnestly implemented and cross-cyclical adjustments be strengthened in response to new economic developments**

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On August 16, Li Keqiang presided over an executive meeting of the State Council, demanding that policies be earnestly implemented and cross-cyclical adjustments be strengthened in response to new economic developments. First, efforts should be made to increase support for the speedy recovery and reconstruction of

disaster-stricken areas. Second, it is important to strengthen employment assistance for key groups such as college graduates, rural migrant workers and people in need, and protect the income and livelihood of people through stable employment. Third, the existing tax and fee cut measures should be well implemented and arbitrary charges be curbed; and financial institutions should be guided to make good use of funds freed from RRR cut to strengthen financial services for micro, small and medium enterprises. Fourth, it is required to improve and implement the plan to deal with the price increase of important raw materials, scientifically organize the storage and release, and ensure sufficient market supply. Fifth, the resettlement and basic living needs of disaster-affected people should be met, and the northern area must work in advance to ensure the safety and warmth of disaster-affected people through the winter.

### ***3. State Council published the Opinions on Further Regulating the Order of Financial Audits and Promoting the Healthy Development of the CPA Industry***

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On August 23, the State Council published the *Opinions on Further Regulating the Order of Financial Audits and Promoting the Healthy Development of the CPA Industry*, which provided the following. First, the order of financial audits should be rectified in accordance with the laws, the supervision of accounting firms engaged in securities business be strengthened in accordance with the laws, and the typical cases of violation of laws and regulations be seriously investigated and exposed. The development of the legal and institutional framework for the CPA industry should be accelerated, and the supervisory cooperation mechanism be established and improved. Second, the implementation of the nationally unified accounting system should be strengthened, the daily supervision and credit management of the industry be enhanced, and the audit standard system and professional ethics system be strengthened and improved. Third, the business environment for accounting firms and their corporate capabilities should be optimized, the accounting firms be guided to strengthen internal management, a quality-oriented accounting firm selection mechanism be promoted, the audit risk bearing capacity of accounting firms be enhanced, the professional training and education for CPAs be strengthened, and the bank letters and certificates business be further regulated.

#### **4. MOF and the Ministry of Education jointly published the *Measures for Administration of Subsidy Funds for Improvement of Weak Links and Capacity Enhancement in Compulsory Education***

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On August 24, MOF and the Ministry of Education jointly published the *Measures for Administration of Subsidy Funds for Improvement of Weak Links and Capacity Enhancement in Compulsory Education*, which provided the following. First, the subsidy funds for improvement of weak links and capacity enhancement in compulsory education refer to the central government's transfer payment funds for supporting the development of compulsory education, especially for improving weak links and enhancing capacity of schooling, with a focus on supporting the central and western regions and some financially difficult regions in the east. The implementation period is 2021-2025. Second, the subsidy funds will be mainly used to support the improvement of the basic schooling conditions in rural schools, the construction, reconstruction and expansion of necessary compulsory education schools, the orderly expansion of the supply of schooling capacity in urban areas, the development of internet facilities of schools, and the construction of the "three classrooms" on line. Third, the amount of subsidy funds for the relevant provinces and the overall performance targets of the funds should be studied and determined in accordance with the regulations.

#### **5. MOF published the *Guidelines on Setting and Determining Values of the Core Performance Targets and Indicators of Central Department Project Expenditure (Trial)***

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On August 25, MOF published the *Guidelines on Setting and Determining Values of the Core Performance Targets and Indicators of Central Department Project Expenditure (Trial)*, which provided the following. First, the project expenditure performance targets refer to the central department's expected output and effect within a certain period as well as the corresponding cost control requirements in relation to their project expenditure determined in accordance with departmental responsibilities and business development requirements and funded by budgetary arrangements. Second, it is required to strengthen cost-benefit analysis in the process of fiscal

resource allocation and budget preparation, and enhance constrains by strengthening cost control, fully reflecting expenditure costs, and moving towards quantitative reflection of social and ecological benefit indicators. Third, the indicators will be used in the preparation and review of budget performance targets for central departments in 2022 to further strengthen and standardize performance self-evaluation and to enhance performance self-evaluation quality; efforts will be made to consider embedding performance indicators into the integrated budget management system, speed up the pilot program, and steadily roll it out.

## **6. MOF and the State Administration of Taxation published an announcement on the continued implementation of the preferential urban maintenance and construction tax policy**

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On August 26, MOF and the State Administration of Taxation published an announcement on the continued implementation of the preferential urban maintenance and construction tax policy, which provided the following. First, the standard gold sold through the gold exchange and physically delivered by the members of the gold exchange, the standard gold sold through the Shanghai Futures Exchange and physically delivered out of the warehouse by the members and clients of Shanghai Futures Exchange, and the major national water conservancy project construction fund are exempted from urban maintenance and construction tax. Second, from January 1, 2019 to December 31, 2021, small-scale VAT taxpayers may enjoy up to 50% reduction of urban maintenance and construction tax, and urban maintenance and construction tax will continue to be reduced and exempted to support employment and business startup by veterans; from January 1, 2019 to December 31, 2025, urban maintenance and construction tax will continue to be reduced and exempted to support and promote employment and business startup by key groups of people.

## **7. MOF and the State Administration of Taxation jointly published an announcement on the continuation of relevant preferential policies after the implementation of the Deed Tax Law**

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On August 30, MOF and the State Administration of Taxation jointly published an

announcement on the continuation of relevant preferential policies after the implementation of the Deed Tax Law, which provided the following. First, if the ownership of land and/or housing is changed due to the division of joint property between husband and wife in a divorce, the deed tax will be exempted. Second, urban employees who purchase public housing for the first time in accordance with regulations are exempted from deed tax. For the ordinary housing built by public-owned units by raising funds to build housing for employees or ordinary commercial housing purchased by the unit, if it is the first-time purchase of housing by employees, the deed tax will be exempted in the same way as public housing. Purchased public housing will also be exempted from deed tax if it becomes full-property housing after paying the land transfer price. Third, for the foreign bank branch restructured into a wholly foreign-owned bank (or its branch) in accordance with regulations, if the wholly foreign-owned bank (or its branch) continues to maintain the ownership of the original foreign bank branch's housing after the restructuring, the deed tax will be exempted.

#### **8. MOF published a circular on the implementation of the pilot program of electronic general payment statement for non-tax revenues**

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On September 1, MOF published a circular on the implementation of the pilot program of electronic general payment statement for non-tax revenues, which provided the following. First, the electronic payment statement refers to the certificate in the form of digital messages issued, stored, transmitted and received by using computer and information network technology when collection agencies collect government non-tax revenues in accordance with law under MOF's supervision, and is a type of fiscal invoice in the form of electronic data. Second, electronic payment statement is issued through the non-tax revenue collection management system. By replacing paper payment statement with digital information and manual signatures with electronic signatures, electronic invoicing, automatic verification, full-process tracking and source control of payment statement are made possible. Third, MOF is responsible for organizing and implementing the pilot work of electronic payment statement, determining the pilot units and implementation steps, and establishing and improving related management systems.

## II. Facts & Figures

### **1. China's CPI rose by 1% year on year in July**

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The data published by NBS on August 9 showed that China's CPI rose by 1% year on year in July. Among them, prices in urban areas rose by 1.2%, and prices in rural areas rose by 0.4%; food prices fell by 3.7%, and non-food prices rose by 2.1%; consumer goods prices rose by 0.6%, and service prices rose by 1.6%. CPI went up by 0.3% month on month. Among them, prices in urban areas rose by 0.3%, and prices in rural areas rose by 0.2%; food prices fell by 0.4%, and non-food prices rose by 0.5%; consumer goods prices rose by 0.1%, and service prices rose by 0.6%.

### **2. China's industrial PPI rose by 9% year on year in July**

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The data published by NBS on August 9 showed that China's industrial PPI rose by 9% year on year in July. Among them, prices of extractive industry rose by 38.7%, prices of raw material industry rose by 17.9%, prices of processing industry rose by 7.5%, food prices rose by 1%, apparel prices fell by 0.4%, prices of general daily necessities rose by 0.5%, and prices of consumer durables fell by 0.3%.

### **3. Value added of major industrial enterprises in China increased by 6.4% year on year in July**

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The data published by NBS on August 16 showed that value added of major industrial enterprises in China increased by 6.4% year on year in July. In terms of the three categories, value added of mining industries increased by 0.6% year on year; value added of manufacturing industries increased by 6.2%; and value added of electricity, heating, gas and water production and supply industries increased by 13.2%. In terms of types of ownership, value added of state-owned and controlled enterprises increased by 7.2% year on year; value added of joint-stock enterprises increased by 7.1%, value added of foreign, Hong Kong, Macao and Taiwan-invested enterprises increased by 3.8%; and value added of private enterprises increased by 6.1%.

#### **4. China issued 656.8 billion RMB of local government bonds in July**

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The data published by MOF on August 25 showed that China issued 656.8 billion RMB of local government bonds in July. Among them, 248 billion RMB were general bonds, and 408.8 billion RMB were special bonds; by purposes of issuance, 403.3 billion RMB were new bonds, and 253.5 billion RMB were refinancing bonds. The average maturity of local government bonds was 11.6 years, including 6.8 years for general bonds and 14.5 years for special bonds; the average interest rate was 3.31%, including 3.12% for general bonds and 3.43% for special bonds.

#### **5. Cumulative balance of local government debts in China from January to July reached 27.9901 trillion RMB**

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The data published by MOF on August 25 showed that cumulative balance of local government debts in China from January to July reached 27.9901 trillion RMB. Among them, general debts were 13.5743 trillion RMB, and special debts were 14.4158 trillion RMB; government bonds were 27.815 trillion RMB, and government debts in the form of non-government bonds were 175.1 billion RMB. The remaining average maturity of local government bonds was 7.2 years, including 6.4 years for general bonds and 8.0 years for special bonds; the average interest rate was 3.52%, including 3.51% for general bonds and 3.52% for special bonds.

#### **6. Total operating income of state-owned enterprises (SOEs) in China from January to July reached 41.43737 trillion RMB**

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The data published by MOF on August 27 showed that total operating income of state-owned enterprises (SOEs) in China from January to July reached 41.43737 trillion RMB, a year-on-year increase of 26.6%. Among them, operating income of central SOEs amounted to 23.27559 trillion RMB, an increase of 24.9% year on year; operating income of local SOEs amounted to 18.16178 trillion RMB, an increase of 28.9% year on year.

## **7. Total profit of state-owned enterprises (SOEs) in China from January to July reached 2.78523 trillion RMB**

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The data published by MOF on August 27 showed that total profit of state-owned enterprises (SOEs) in China from January to July reached 2.78523 trillion RMB, a year-on-year increase of 92.1%. Among them, profit of central SOEs amounted to 1.85422 trillion RMB, a year-on-year increase of 88.8%; profit of local SOEs amounted to 931.01 billion RMB, a year-on-year increase of 1.0 times.

## **8. China's lottery tickets in July reached 36.245 billion RMB**

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The data published by MOF on August 30 showed that China's lottery tickets in July reached 36.245 billion RMB, an increase of 96 million RMB or 0.3% year on year. Among them, welfare lottery sales were 11.254 billion RMB, a year-on-year decrease of 4.182 billion RMB, or 27.1%; and sports lottery sales were 24.991 billion RMB, a year-on-year increase of 4.279 billion RMB, or 20.7%.

## **9. China's manufacturing PMI in August was 50.1%**

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The data published by NBS on August 31 showed that China's manufacturing PMI in August was 50.1%, a decrease of 0.3 percentage points from the previous month. By the scale of enterprises, the PMI of large-sized enterprises was 50.3%, down by 1.4 percentage points from the previous month, and continued to stay above the critical point; the PMI of medium-sized enterprises was 51.2%, up by 1.2 percentage points from the previous month, and was above the critical point; the PMI of small-sized enterprises was 48.2%, up by 0.4% 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 was above the critical point, whereas the new order index, raw material inventory index, employee index, and supplier delivery time index were all below the critical point.

### III. MOF Events

1. On August 26, Finance Minister Liu Kun attended and addressed the virtual BRICS Finance Ministers and Central Bank Governors' Meeting. The meeting mainly discussed the global economic situation and the response to the COVID-19 pandemic, infrastructure investment, customs cooperation, as well as financial service cooperation, information security cooperation, Contingent Reserve Arrangement (CRA) and other topics.

## IV. Local Finance

### **1. Yunnan Finance: take an integrated approach built on four prongs to deeply advance budget management reform**

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According to the news released by the Finance Department of Yunnan Province on August 2, finance authorities in Yunnan have thought out the existing management framework and actively developed an integrated budget compilation and review system built on four prongs to enhance the quality and efficiency of the reform of fiscal budget management. First, re-set the budget review standards, standardize budget compilation, apply information technology in fiscal business, and promote integrated budget management. Second, compile zero-based budget, insist that “funds follow projects”, comprehensively sort through the existing fiscal expenditure items, and implement a mechanism for linking budgetary arrangements with implementation progress, supervision by the People’s Congress and problems found in audit supervision. Third, carry out whole-life project cycle management, require that no budget be prepared for projects that are not in the pipeline, and optimize the mechanism for standardized classification, pipeline-entry review and sequencing of projects. Fourth, improve fiscal expenditure standard system as well as public expenditure quota standard, establish expenditure standard framework, and provide support for departments to develop project expenditure standards.

### **2. Hunan Finance: actively support the construction of new-type smart city**

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According to the news released by the Finance Department of Hunan Province on August 4, the Government of Changsha City has placed great importance on the construction of new-type smart city. First, they make it clear that project funds should, in principle, come from the public project funds of the unit or the departmental budget of the unit, and insist on the principles of “no plan, no approval” and “no budget, no expenditure”. Second, they make it clear that the Finance Bureau of Changsha should be responsible for the overall planning and management of the special funds for new-type smart city, and should require construction units to prepare and submit

project technical plans, carry out project bidding, organize project implementation, and control project's annual fund allocation limit by taking into account requirements for post-review project technical plan, contractual agreements, and size of annual funding budget. Third, they allow construction unit to apply for fiscal funds in light of project progress if projects are included in the 2021 construction plan after the project construction plan is reviewed and approved by the joint review meeting of Changsha Data Resources Bureau; and they would not allocate any fiscal funds for projects that are not included in the 2021 construction plan.

### **3. Anhui Finance: work on six fronts to ensure sound preparation of city-level budget for 2022**

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According to the news released by the Finance Department of Anhui Province on August 17, in order to further advance the reform of budget management system and strengthen budget performance management, the Finance Bureau of Fuyang City has worked on six fronts to ensure sound preparation of city-level budget for 2022. First, insist on preserving the necessary expenditure while cutting the unnecessary expenditure in budget preparation, and prioritize expenditures related to the “three priorities”, especially those with national standard. Second, continue to increase the transfer of governmental fund budget and state-owned capital operating budget into general public budget to strengthen the funding capacity of general public budget. Third, continue to improve the expenditure standard system and speed up the development of city-level special fund quota standard. Fourth, strengthen performance target management and establish a binding restraint mechanism where expenditure must be assessed for effectiveness and ineffectiveness must be held accountable. Fifth, continue to link budget implementation progress with next year's budgetary arrangement, and establish the mechanism for linking the results of People's Congress review and budget evaluation with budgetary arrangement. Sixth, stick to openness and transparency in budget preparation, and further promote the disclosure of government budget and departmental budget information.

### **4. Liaoning Finance: build a “432” budget performance management model**

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According to the news released by the Finance Department of Liaoning Province on August 18, the Finance Bureau of Shenyang City has taken multiple measures to build a “432” budget performance management model, i.e., construction of 4 systems, support with 3 means, and breakthrough in 2 chains, so as to gradually establish a comprehensive, full-process and full-coverage budget performance management system. First, consolidate the construction of the city’s budget performance management working system and institutional system, the city-specific performance index system, and the city’s budget performance management appraisal system to establish a systemic framework for budget performance management across the city. Second, promote the high-quality development of budget performance by strengthening informatization, giving play to the leading and catalytic role of advanced regions, and properly using third-party institutions. Third, seek to achieve breakthrough in budget performance monitoring and organizational budget performance evaluation, so as to build a comprehensive, full-process, and full-coverage budget performance management system.

#### **5. Inner Mongolia Finance: take multiple measures to strengthen the management of social assistance funds**

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According to the news released by the Finance Department of Inner Mongolia Autonomous Region on August 23, the Finance Bureau of Baotou City has taken multiple measures to strengthen the management of social assistance funds so as to provide stronger protection of people’s basic livelihood. First, establish a stable natural growth mechanism, constantly improve the tiered and classified social assistance system, and steadily improve the basic living standards of the people in need. Second, improve the assistance fund distribution mechanism, adopt the factor method in distribution by mainly considering factors such as the number of recipients of assistance, assistance level, fund balance, financial capacity and performance evaluation results, and tilt towards localities with weak financial resources and good work completion performance. Third, improve the fund supervision mechanism, closely follow the progress of social assistance fund expenditures by relying on the direct fund allocation system, and require all localities and units of the autonomous region to enter data in a timely manner and ensure that the data is truthful and the

accounts are clear. Fourth, improve the performance evaluation mechanism, and make the performance evaluation of the assistance work for the needy people an important measure to standardize the assistance management and improve the efficiency of the use of funds.

## **6. Guangxi Finance: proactively handle proposals and suggestions to advance high-quality development of public finance**

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According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on August 26, the finance authorities of Guangxi have formulated policies and systems, and effectively allocated transfer payment funds to vigorously promote the high-quality development of public finance. First, take the handling of proposals and suggestions seriously, study their implementation on the basis of fiscal reality, and seek the understanding and support of People's Congress deputies and People's Political Consultative Committee members. Second, carry out on-site investigation to find out the situation, and make special reports. Third, tackle the difficulties of pollution prevention and control, and continue to improve the quality of the ecological environment; adhere to the direction of ecological protection and restoration, and continue to enhance the stability of the ecosystem; advance various areas of rural ecological revitalization, and continue to consolidate the outcomes of poverty alleviation through ecological protection.

## **7. Fujian Finance: work on three fronts to effectively optimize the business environment for government procurement**

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According to the news released by the Finance Department of Fujian Province on August 31, the Finance Bureau of Jinjiang City has strived to enhance the quality and efficiency of its fiscal management, reduce burdens for market entities and uphold fairness and justice of administration, in order to continuously optimize the business environment for government procurement and stimulate market vitality. First, standardize and unify the centralized procurement catalogues and quota standards, advance the trial disclosure of public procurement intentions, strengthen the "Internet + government procurement" model, and promote the transformation and upgrading of

transaction model. Second, effectively reduce the burden on enterprises by implementing five specific measures, including cancellation of government procurement bid (response) deposits, exemption of performance bonds or lowering of the payment ratio, allowing for letter of guarantee and other non-cash methods, and restricting behavior of suppliers. Third, standardize transaction rules and strengthen industry supervision and regulation, and earnestly maintain open and transparent market order.

## **8. Jiangsu Finance: earnestly perform functions to provide solid support for the high-quality development of modern service industry**

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According to the news released by the Finance Department of Jiangsu Province on September 2, the finance authorities of Jiangsu have helped build a service industry system that is high-quality, efficient, optimized and competitive with Jiangsu characteristics, providing strong support for the stable and sound development of Jiangsu's economy and society. First, strengthen funding for key sectors, and support the cultivation and expansion of service-oriented manufacturing market entities, the construction of a comprehensive platform for producer service industry, and the professional upgrading and transformation of modern services. Second, optimize the structure of special fund support, accelerate the construction of a full-chain science and technology service system, speed up the digitalized development of producer service industry, and accelerate the high-quality development of modern logistics. Third, increase fiscal support, earmark special funds for the upgrading of consumer service industry, and support the integrated development of culture and tourism, the development of health and elderly care service industry, and the development of education and sports service industry.

## V. Remarks & Opinions

### **1. Liu Kun: providing solid financial support for securing a decisive victory in building a moderately prosperous society in all respects**

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On July 30, at a press conference held by the State Council Information Office, Finance Minister Liu Kun gave a presentation on the important role of public finance in building a moderately prosperous society in all respects. Liu Kun pointed out that cumulative national fiscal revenue reached 142.8 trillion RMB from 2012 to 2020, registering an average annual growth of 5.7%. The steady growth of China's fiscal strength has provided a strong financial guarantee for securing a decisive victory in building a moderately prosperous society in all respects.

In the great journey of building a moderately prosperous society in all respects, the finance authorities have resolutely implemented the important instructions of General Secretary Xi Jinping, kept in mind the national priorities, made every effort to advance economic and social development in accordance with the decisions and deployment of the CPC Central Committee and the State Council, and achieved remarkable outcomes. First, we scientifically carried out macro regulation to promote development. Since 2012, in accordance with the decisions and deployment of the CPC Central Committee and the State Council, proactive fiscal policy has been implemented for 10 consecutive years. In 2021, in order to consolidate and expand the outcomes of pandemic prevention and control as well as economic and social development, the national general public budget expenditure is expected to exceed 25 trillion RMB, the deficit rate to be around 3.2%, and the new tax and fee cut to exceed 700 billion RMB throughout the year. At the same time, efforts were made to implement the requirements of belt-tightening for the Party and government agencies, non-urgent and non-mandatory expenditures were further and substantially reduced, and all undertakings were required to be run in a frugal way. Proactive fiscal policy was accurately enforced to effectively offset the downward pressure on economy and to keep economic operation within an appropriate range of high-quality development. Second, we worked to promote innovation by focusing on the key areas. From 2012 to

2021, the national general public budget expenditure on science and technology increased from 445.263 billion RMB to 932.1 billion RMB, totaling 7.07 trillion RMB of investment over 10 years, with a focus on supporting integrated circuit, photovoltaic power generation, new-energy vehicles, and new generation information technology. Efforts were made to secure breakthroughs in key and core technologies and support the removal of bottlenecks and strangleholds in technologies. With strong fiscal support, China's scientific and technological undertakings made historic achievements and underwent historic changes, as traditional industries accelerated their upgrades, emerging industries continued to grow, and a number of major scientific and technological findings of landmark significance emerged. Third, we coordinated our efforts to make up for shortcomings in economic and social development. With firm commitment to the new development philosophy, the finance authorities vigorously promoted the coordinated development of urban and rural areas, and strived to improve the equalization of basic public services. From 2012 to 2021, the central government's transfer payments to local governments increased from 4.54 trillion RMB to 8.34 trillion RMB, posting an average annual growth of 7%, with a tilt towards financially difficult regions and underdeveloped regions. The national general public budget expenditure on agriculture, forestry and water also increased from 1.2 trillion RMB to 2.5 trillion RMB, an average annual increase of 8.5%, to support rural and agricultural development. In addition, efforts were made to study and introduce fiscal and tax policies to support the high-quality development of the Hainan Free Trade Port and the Guangdong-Hong Kong-Macao Greater Bay Area. Fourth, we made effective efforts to protect people's basic livelihood. In pursuing people-centered development, the finance authorities did its utmost within their capacity to step up inclusive protection of people's basic livelihood and fully support poverty alleviation. From 2012 to 2020, the central government provided 689.6 billion RMB of special funds for poverty alleviation, and made available 156.1 billion RMB of subsidies to promote rural revitalization in 2021. From 2012 to 2021, in the national general public budget, expenditure on education increased from 2.12 trillion RMB to 3.82 trillion RMB, expenditure on culture, tourism, sports and media increased from 226.835 billion RMB to 417.988 billion RMB, expenditure on social security and employment increased from 1.26 trillion RMB to 3.44 trillion RMB, and expenditure on health increased from 805.8 billion RMB to 1.8659 trillion RMB. As a result,

people's living standards improved significantly, and their sense of gain, wellbeing and security was greatly enhanced. Fifth, we continued to pursue green development to improve ecological quality. In fighting the critical battle of pollution prevention and control, the finance authorities provided vigorous financial support for building of a beautiful China with blue skies, green lands and clear waters. From 2012 to 2021, the national fiscal expenditure on energy conservation and environmental protection increased from 296.346 billion RMB to 630.537 billion RMB, an average annual increase of 8.8%. The spending sought to tackle outstanding problems in the ecological environment and score decisive progress in pollution prevention and control. The efforts to safeguard blue skies, clear waters and pollution-free lands have resulted in notable improvement of the ecological environment. Sixth, we made systemic efforts to advance reform. Since the 18th CPC National Congress, the reform of China's budget management system has steadily progressed, the establishment of inter-governmental fiscal relations built upon clearly defined powers and responsibilities, appropriate financial resource allocation, and greater balance between regions has been accelerated, and significant progress has been made in tax reform. In order to mitigate the impact of COVID-19 pandemic and improve the efficiency of the use of fiscal funds, the mechanism for directly allocating fiscal funds to prefecture and county-level governments was innovatively established and made a normal practice, so as to channel to the funds directly to the grassroots government and bring direct benefits to enterprises and people.

## **2. Liu Shangxi: the focus of proactive fiscal policy is undergoing new changes**

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On August 17, Liu Shangxi, President of the Chinese Academy of Fiscal Sciences, pointed out in his published article that in the second half of the year, the proactive fiscal policy should be focused on “preventing risks” and “planning for the long term”. On risk prevention, fiscal policy must first seek to guide expectations. It is necessary to not only make good use of policies, but also avoid over-dependence on policies, and to energize the endogenous vitality of market entities. Although tax and fee cut is crucial and has produced notable effects, the marginal effects are also declining markedly and cannot be sustained for long. At present, we need to make sure that systemic tax and fee cut is well enforced, and put more efforts on the institutional

reforms. Especially in the face of the new round of Delta virus, we need to continue to coordinate pandemic prevention and control as well as economic and social development, and on that basis, take stock of the experiences in the implementation of the preferential policies last year to foster a low-risk macro environment for micro and small enterprises and the self-employed in the context of macro uncertainty, and avert the domino effects whereby the short-term operational risks of micro entities spread horizontally and vertically along the industrial chain, supply chain and capital chain, and even spread to employment, finance and society, generating new public risks. In addition, it is necessary to pay close attention to the follow-up construction of ongoing projects, effectively match debt issuance with project progress, and improve the investment environment and enhance the development momentum.

On planning for the long term, the proactive fiscal policy should still focus on cultivating the endogenous driving force for economic development. On the one hand, it is necessary to further increase financial support for protection of people's basic livelihood and implementation of major national strategic tasks, scale up human capital investment, and enhance China's development momentum and sustainability. On the other hand, efforts should be made to stabilize expectations of various market entities through policies embedded in the institutional reform and innovation, further enhance their enthusiasm for expanding R&D investment and project investment. In particular, it is important to increase fiscal support for small and micro enterprises. There are a large number of micro and small enterprises in China. They are crucial for economic development and social stability, as they have the greatest dynamism, broadest and closest connection with people's wellbeing, yet they also have the weakest risk resilience. Under the macro environment where commodity prices continue to remain high, household consumption recovery is relatively weak, and uncertainties and instability are still heightened, it is necessary to continue with proactive fiscal policy, develop innovative risk-sharing methods, and effectively enhance the investment incentives and growth dynamism of the vast number of micro and small enterprises.

### **3. Xu Hongcai: China's budget implementation since this year has been in line with expectations**

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On August 18, Vice Finance Minister Xu Hongcai reported on the implementation of the budget at the 30th Meeting of the Standing Committee of the 13th National People's Congress. Xu Hongcai pointed out that since the beginning of this year, in the face of the severe and complex global COVID-19 pandemic and the external environment as well as the challenges in domestic economic recovery, all regions and government departments, guided by the Xi Jinping Thought on Socialism with Chinese characteristics for a New Era, and under the strong leadership of the CPC Central Committee with Comrade Xi Jinping at the core, have earnestly implemented the spirit of the 5th Plenary Session of the 19th CPC Central Committee and the requirements of the Central Economic Work Conference, and carried out the budget-related resolutions of the 4th Session of the 13th National People's Congress in accordance with the arrangements of the Government Work Report. Adhering to the general principles of seeking progress while maintaining stability, all regions and government departments have proceeded from the new development stage, fully, accurately and comprehensively applied the new development philosophy, worked to foster a new development paradigm, pursued high-quality development, coordinated development and security, continued to consolidate and expand the outcomes of pandemic prevention and control and economic and social development, did a good job in ensuring stability on the six fronts and maintaining security in the six areas, took a long-term view on the basis of the current circumstances, and implemented macro policies in a targeted manner. As a result, China's economy has continued to recover steadily in line with expectations, showing a steady trend of strengthening momentum, the employment situation is improving, and the social programs and people's livelihood are effectively safeguarded. On this basis, the budget implementation has been relatively sound.

#### **(1) Implementation of general public budget**

From January to July, the revenues under national general public budget reached 13.7716 trillion RMB, a year-on-year increase of 20%, and an increase of 9.6% over

the same period of 2019. Among them, the revenues under central-level general public budget were 6.4658 trillion RMB, a year-on-year increase of 20.7%, and an increase of 7% over the same period of 2019; the revenues under local-level general public budget were 7.3058 trillion RMB, a year-on-year increase of 19.5%, and an increase of 12% over the same period of 2019. The recovery of fiscal revenues reflects the obvious outcomes of China's economic recovery; the relatively high year-on-year growth rate is mainly due to the incomparable factors of the lower revenue base during the pandemic-hit period of last year and the current increase in the PPI. The expenditures under national general public budget reached 13.7928 trillion RMB, a year-on-year increase of 3.3%, maintaining relatively strong expenditure intensity. The main features of revenues and expenditures are as follows. First, economic recovery has led to rapid growth of tax revenues, and tax revenues of the main types of taxes and most industries have basically recovered or significantly exceeded their pre-pandemic levels. Second, multiple factors have driven the growth of non-tax revenues, and the fee-cut policy has been effectively implemented. Third, fiscal revenues across the country have generally rebounded, and the income differentiation pattern between regions has remained. Fourth, fiscal expenditures have been cut for general items and kept for priority items, providing adequate support for expenditures on people's basic livelihood.

## (2) Implementation of governmental fund budget

From January to July, the revenues under national governmental fund budget reached 4.6967 trillion RMB, a year-on-year increase of 19.9%. Among them, the revenues under central-level governmental fund budget were 236.6 billion RMB, a year-on-year increase of 29.5%; the revenues under local-level governmental fund budget were 4.4601 trillion RMB, a year-on-year increase of 19.4%, of which revenues from the transfer of state-owned land use rights increased by 18% year on year, mainly owing to the relatively low base number in the same period of last year and the increase of land transfer prices in some cities this year. The expenditures under national governmental fund budget reached 4.9366 trillion RMB, a year-on-year decrease of 6.8%. Among them, the expenditures under central-level

governmental fund budget were 124.4 billion RMB, an increase of 64.1% year on year, mainly owing to the low implementation figure in the same period of last year caused by the impact of the pandemic and the newly added expenditures financed by the special treasury bonds for combating COVID-19; the expenditures under local-level governmental fund budget were 4.8122 trillion RMB, a year-on-year decrease of 7.9%, mainly owing to a decrease in the issuance of new special bonds and a corresponding decrease in the arranged expenditures. Among them, expenditures related to revenues from the transfer of state-owned land use rights increased by 13.1% year on year.

### (3) Implementation of state-owned capital operation budget

From January to July, the revenues under national state-owned capital operation budget reached 200.2 billion RMB, a year-on-year increase of 37.4%. Among them, the revenues under central-level state-owned capital operation budget were 78.8 billion RMB, a year-on-year increase of 16.3%, mainly owing to the increase in the revenues handed over from the state-owned assets of financial enterprises; the revenues under local-level state-owned capital operation budget were 121.4 billion RMB, a year-on-year increase of 55.7%, mainly owing to the low implementation figure caused by the impact of the pandemic in the same period of last year. The expenditures under national state-owned capital operation budget reached 138.4 billion RMB, a year-on-year increase of 89.1%, mainly owing to the low implementation figure caused by the impact of the pandemic in the same period of last year. Among them, the expenditures under central-level state-owned capital operation budget were 49.7 billion RMB, a year-on-year increase of 71.5%; the expenditures under local-level state-owned capital operation budget were 88.7 billion RMB, a year-on-year increase of 100.6%.

### (4) Implementation of the social insurance fund budget

From January to July, the revenues under national social insurance fund budget

reached 5.3761 trillion RMB, a year-on-year increase of 30.7%, mainly owing to substantial increase in insurance premium income in the context of the continuous improvement of the pandemic prevention and control situation and the withdrawal of the temporary policies on the reduction and exemption of corporate social insurance contribution; at the same time, in order to ensure that various social insurance benefits are paid on time and in full, the finance authorities at all levels have continued to increase subsidies for social insurance funds. Among them, the revenues under central-level social insurance fund budget were 53 billion RMB, a year-on-year increase of 10.9%; the revenues under local-level social insurance fund budget were 5.3231 trillion RMB, a year-on-year increase of 30.9%. The expenditures under national social insurance fund budget were 4.8828 trillion RMB, a year-on-year increase of 11.8%. Among them, the expenditures under central-level social insurance fund budget were 43.2 billion RMB, an increase of 8% year on year; the expenditures under local-level social insurance fund budget were 4.8396 trillion RMB, an increase of 11.8% year on year. As of the end of July, the fund had a cumulative balance of 9.947 trillion RMB.

In general, the implementation of budget since this year has been in line with expectations, which has effectively guaranteed the implementation of the major decisions and requirements of the CPC Central Committee and the State Council. At the same time, there still exist some difficulties and problems in fiscal operation and budget implementation. We take these problems seriously and will actively take measures to resolve them.

#### **4. Liu Kun: BRICS members should enhance coordination and collaboration on climate change, digital infrastructure investment and other agenda**

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On August 26, Finance Minister Liu Kun attended and addressed the second virtual BRICS Finance Ministers and Central Bank Governors' Meeting. Liu Kun said that BRICS financial cooperation has injected important impetus into the global fight against the pandemic and the recovery of global economy. BRICS members should further uphold multilateralism, strengthen solidarity and cooperation, and enhance coordination and collaboration on such important global issues as macroeconomic

policies, climate change, debt, infrastructure investment and health governance, so as to promote the recovery and a strong, sustainable, balanced and inclusive growth of world economy. Liu Kun emphasized that China's economy has continued to recover steadily since 2021. The Chinese government has implemented macroeconomic policies in a systemic and targeted way, and continued to consolidate and expand the outcomes of pandemic prevention and control and economic and social development. In the second half of the year, China's economy will maintain its momentum of steady recovery, with continuously increased quality of development. Liu Kun pointed out that the digital economy represents the direction of future development, and digital infrastructure carries immense development potential. During the 14th Five-Year Plan period, China will accelerate its digital development. It is suggested that all BRICS members focus on developing the digital economy, bridge the digital divide, and further explore opportunities to deepen digital infrastructure investment cooperation, and the New Development Bank is also expected to provide technical, knowledge and financial support for this purpose.

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