

# CHINA FINANCE MONTHLY 中国财政月度资讯

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## HIGHLIGHTS

- Assistant Finance Minister Ou Wenhan: thoroughly study and implement Xi Jinping's Economic Thought and effectively deliver fiscal work in the new era
- Vice Finance Minister Liao Min met with Chair of the US-China Business Council Marc N. Casper and Directors of the Council
- State Council listened to reports on the supervision over and support work for stabilizing the overall economy
- MOF published the *Fiscal and Tax Support Plan by the Central Finance Authorities for Promoting Ecological Protection and High-Quality Development of the Yellow River Basin*
- Value-added of China's major industrial enterprises in August increased by 4.2% year on year in real terms

## 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. State Council listened to reports on the supervision over and support work for stabilizing the overall economy**

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On August 31, Premier Li Keqiang chaired an executive meeting of the State Council to listen to reports on the supervision over and support work for stabilizing the overall economy, and deployed measures to fully release policy effectiveness and accelerate the expansion of effective demand. First, the scale of policy-based and development-oriented financial instruments will be expanded where necessary, based on the good use of the newly added 300 billion RMB of such instruments; the new projects started in the first half of the year will be included into the scope for support, and the previously eligible projects that have not been put in due to quota restrictions will be automatically included into the scope for support. Second, the areas supported by policy-based and development-oriented financial instruments will be expanded to include the renovation of old residential communities and provincial expressways, and to attract private investment as much as possible. Third, policies need to be introduced expeditiously to support equipment upgrading of manufacturing enterprises and vocational colleges. Fourth, commercial banks will be guided to expand medium and long-term lending to provide sufficient financing for key project construction and equipment upgrading. Fifth, to meet the rigid demand for housing as well as the needs for improved housing, local governments should make good use of the policy toolbox on the “one city, one policy” basis and flexibly use phased credit policies and special loans to ensure the delivery of home buildings.

### **2. Three ministries jointly published a circular on the issuance of the *Measures for Administration of Subsidy Funds for Production Safety, Hazard Prevention, and Emergency Response Capacity Building***

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On September 5, MOF, the Ministry of Emergency Management, and the National Mine Safety Administration jointly published a circular on the issuance of the *Measures for Administration of Subsidy Funds for Production Safety, Hazard*

*Prevention, and Emergency Response Capacity Building*, which provided the following. First, the subsidy funds for production safety refer to the shared-fiscal-mandate transfer payment funds arranged by the central government through general public budget to support local governments and relevant production and operation units in fulfilling their responsibilities for production safety by improving the basic capacity for and supervision over of production safety, and stepping up the capacity building of production safety hazards prevention and emergency response. Second, the key areas supported by the production safety subsidy funds include the development of emergency response capacity, the prevention and control of major safety risks of hazardous chemicals, the management of potential risks in tailings ponds, the prevention and control of major disaster risks in coal mines and key non-coal mines, and other areas related to production safety as determined by the CPC Central Committee and the State Council. Third, MOF is responsible for the budget management of production safety subsidy funds, and determines the total amount of annual budgetary arrangements for such purposes.

### **3. MOF published the *Fiscal and Tax Support Plan by the Central Finance Authorities for Promoting Ecological Protection and High-Quality Development of the Yellow River Basin***

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On September 6, MOF published the *Fiscal and Tax Support Plan by the Central Finance Authorities for Promoting Ecological Protection and High-Quality Development of the Yellow River Basin*, which provided the following. First, the central government will make available the reward and subsidy funds for ecological protection and high-quality development of the Yellow River Basin to support the provinces and regions along the Yellow River to strengthen ecological environment protection, safeguard the long-term stability of the Yellow River, promote the economical and intensive use of water resources, advance the high-quality development of the Yellow River Basin, and protect, carry forward and promote the culture of the Yellow River. Second, efforts will be made to study the establishment of the Yellow River Basin Ecological Protection and High-quality Development Fund, to support the regulated promotion of public-private partnership (PPP) model in the provinces and regions along the Yellow River, and leverage the China

Government-Enterprise Cooperation Investment Fund to support eligible PPP projects. Third, loans from World Bank, ADB, EIB and other international financial institutions and foreign governments will be actively used, and such borrowing will be supported through the central government's unified borrowing and repayment of international loans.

#### **4. State Council deployed policies to boost employment and entrepreneurship, expand employment, and foster and strengthen market players and new growth drivers**

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On September 7, Premier Li Keqiang chaired an executive meeting of the State Council to deploy policies to boost employment and entrepreneurship, expand employment, and foster and strengthen market players and new growth drivers. First, the areas where job retention and training subsidies are implemented will be allowed to have their stand-by payment period of unemployment insurance balance eased from 24 months to 18 months; the college graduates who have not been employed within the past two years and the registered unemployed youths will be included in the scope of job expansion subsidies, and unemployment insurance will be paid to the unemployed in a timely manner. Second, those in difficulties who rely on platform for flexible employment and college graduates who have not been employed within the past two years will be provided with social security subsidies. Third, borrowers of business start-up guaranteed loans who are in COVID-19-related distress may defer their loan repayments for one year, and banks will be guided to increase initial loans, credit loans, renewal loans, and medium and long-term loans for micro, small and medium-sized enterprises. Fourth, insurance funds will be encouraged to invest in venture capital funds in accordance with the law, and the lock-up period for shareholders of venture capital enterprises will be optimized. Fifth, government-invested business incubation bases are required to make every possible effort to provide rent-free office space for start-ups.

#### **5. MOF and the Ministry of Natural Resources jointly published a circular on organizing the application of marine ecological protection and restoration**

## **projects in 2023**

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On September 8, MOF and the Ministry of Natural Resources jointly published a circular on organizing the application of marine ecological protection and restoration projects in 2023, which provided the following. First, the scope of the key areas supported by marine ecological protection and restoration funds include marine ecological protection and restoration and treatment of pollutants entering the sea, especially supporting the protection and restoration of important ecosystems in key sea areas, islands, coastal zones and the improvement of ecological functions and disaster mitigation functions; and supporting the treatment of direct discharge of pollutants into the sea as well as the treatment of pollutants such as sewage and garbage in islands and sea areas. Second, a long-term mechanism for marine ecological protection and restoration will be established and improved, combining reclamation management and control, marine ecological restoration, marine disaster prevention and mitigation, and terrestrial ecological protection and restoration. Third, provincial finance authorities and natural resource authorities should actively coordinate and cooperate to regulate project review procedures and standards, and improve project review transparency.

## **6. State Council decided to further extend the period of deferred tax payment for manufacturing industries and intensify efforts to help struggling enterprises get through difficulties**

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On September 13, Premier Li Keqiang presided over an executive meeting of the State Council, and decided to further extend tax deferrals for manufacturing industries, intensify efforts to help struggling enterprises get through difficulties, and deploy special re-lending and loan interest subsidies to support equipment upgrading in some sectors. First, the meeting decided that micro, small and medium-sized enterprises (MSMEs) and the self-employed households in the manufacturing sector could defer the payment of “five taxes and two fees” (corporate income tax, personal income tax, domestic value-added tax, domestic consumption tax, and urban maintenance and construction tax, as well as the education surcharge and the local education surcharge), and the deferrals that have expired will be extended for another 4 months starting



from September 1, entailing a total 440 billion RMB of deferred tax payment. Second, the newly added excess input VAT credits of manufacturing industries will be refunded immediately upon application, and the average time for receiving refund is cut to 2 working days, a policy that is expected to further refund VAT of 32 billion RMB for manufacturing enterprises in the remaining 4 months of this year. Third, the central finance authorities will provide a 2.5% loan interest subsidy for firms in manufacturing, service and social service industries, and MSMEs and self-employed households in other industries, in order to ensure that the real borrowing costs of borrowers that take out loans to upgrade equipment are no more than 0.7% in the 4th quarter of this year.

#### **7. MOF published the *Administrative Measures for Accounting of Budget Indicators (for Trial Implementation)***

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On September 21, MOF published the *Administrative Measures for Accounting of Budget Indicators (for Trial Implementation)*, which provided the following. First, accounting of budget indicators refers to the double-entry accounting method adopted by government finance authorities to account for the management of budget indicators or matters. Second, the accounting scope of budget indicators includes general public budget funds, funds of governmental fund budget, state-owned capital operation budget funds, funds under management of special fiscal account (education fees) and departmental funds; the accounting not only targets the funds included in the current year's revenue and expenditure budget, but also the funds carried over from the previous year. The budget indicators are accounted for and balanced according to the nature of the funds. Third, finance authorities and budget units should automatically trigger bookkeeping of accounting system through budget management and fund payment operation, and are responsible for the legality, integrity, accuracy and authenticity of data and other relevant elements.

#### **8. MOF published a circular on the *Classified Catalogue of Government Procurement Items***

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On September 22, MOF published a circular on the *Classified Catalogue of*

*Government Procurement Items*, which provided the following. First, this revision aims to improve the basic classification standard of government procurement in accordance with the requirements of deepening the reform of government procurement system and implementing the integrated budget management. Second, there are 8 revised categories of goods items, including houses and structures, equipment, cultural relics and displays, books and archives, furniture and utensils, special-species animals and plants, materials, and intangible assets; 10 revised categories of engineering items, including housing construction, structure construction, construction engineering preparation, prefabricated component assembly, professional construction, installation engineering, decoration engineering, repair engineering, engineering equipment leasing, and other construction engineering; 25 revised categories service items, including scientific research and experimental development, education services, medical and health services, social services, ecological and environmental protection and treatment services, public facilities management services, and agriculture, forestry, animal husbandry and fishery services.

## II. Facts & Figures

### **1. Total operating income of SOEs in China from January to July was 45.77963 trillion RMB**

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The data published by MOF on August 29 showed that total operating income of SOEs in China from January to July was 45.77963 trillion RMB, a year-on-year increase of 9.5%. Among them, operating income of central SOEs was 25.74658 trillion RMB, a year-on-year increase of 10.6%; and operating income of local SOEs was 20.03305 trillion RMB, a year-on-year increase of 8.1%.

### **2. Lottery sales in China were 31.37 billion RMB in July**

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The data published by MOF on August 31 showed that lottery sales in China were 31.37 billion RMB in July, a year-on-year decrease of 4.875 billion RMB or 13.5%. Among them, welfare lottery sales were 12.38 billion RMB, a year-on-year increase of 1.127 billion RMB or 10.0%; and sports lottery sales were 18.99 billion RMB, a year-on-year decrease of 6.002 billion RMB or 24.0%.

### **3. China's CPI in August rose by 2.5% year on year**

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The data published by NBS on September 9 showed that China's CPI in August rose by 2.5% year on year. Among them, prices in urban areas rose by 2.4%, and prices in rural areas rose by 2.7%; food prices rose by 6.1%, and non-food prices rose by 1.7%; consumer goods prices rose by 3.7%, and services prices rose by 0.7%.

### **4. China's PPI in August rose by 2.3% year on year**

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The data published by NBS on September 9 showed that China's PPI in August rose by 2.3% year on year. Among them, prices of extractive industries increased by 10.1%, prices of raw material industries increased by 7.8%, prices of processing industries decreased by 0.7%, food prices increased by 3.7%, apparel prices increased by 2.2%,

prices of general daily necessities increased by 1.5%, and prices of durable consumer goods decreased by 0.6%.

## **5. China's cumulative general public budget revenue from January to August was 13.8043 trillion RMB**

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The data published by MOF on September 16 showed that China's cumulative general public budget revenue from January to August was 13.8043 trillion RMB, an increase of 3.7% after adjusting for the factor of VAT refund, and a decrease of 8% in natural terms. Among them, the central general public budget revenue was 6.3616 trillion RMB, an increase of 2.8% after adjusting for the factor of VAT refund, and a decrease of 9.7% in natural terms; the local general public budget revenue was 7.4427 trillion RMB, an increase of 4.5% after adjusting for the factor of VAT refund, and a decrease of 6.5% in natural terms. The nationwide tax revenue was 11.3249 trillion RMB, an increase of 1.1% after adjusting for the factor of VAT refund, and a decrease of 12.6% in natural terms; non-tax revenue was 2.4794 trillion RMB, a year-on-year increase of 21.2%.

## **6. China's cumulative general public budget expenditure from January to August was 16.5177 trillion RMB**

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The data published by MOF on September 16 showed that China's cumulative general public budget expenditure from January to August was 16.5177 trillion RMB, a year-on-year increase of 6.3%. Among them, the central general public budget expenditure was 2.1163 trillion RMB, a year-on-year increase of 6.7%; the local general public budget expenditure was 14.4014 trillion RMB, a year-on-year increase of 6.3%.

## **7. Value-added of China's major industrial enterprises in August increased by 4.2% year on year in real terms**

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The data published by NBS on September 16 showed that the value-added of China's major industrial enterprises in August increased by 4.2% year on year in real terms. In

terms of three categories, the value-added of mining industries increased by 5.3% year on year, the value-added of manufacturing industries increased by 3.1%, and the value-added of electricity, heating, gas and water production and supply industries increased by 13.6%. In terms of ownership, the value-added of state-controlled enterprises increased by 5.6% year on year; the value-added of joint-stock enterprises increased by 4.1%, the value-added of foreign-invested enterprises as well as Hong Kong, Macao and Taiwan-invested enterprises increased by 4.0%; and the value-added of private enterprises increased by 1.1%.

### III. MOF Events

1. On September 2, Vice Finance Minister Liao Min met with Chair of the US-China Business Council Marc N. Casper and Directors of the Council. The two sides had an in-depth and productive exchange of views on topics such as China-U.S. relations and China-U.S. economic and trade relations, China-U.S. macroeconomic situation, as well as China's pandemic control policy, financial industry opening, government procurement, and cross-border data flow.

## IV. Local Finance

### **1. Guangxi Finance: promoting the improvement of rural living environment**

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According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on August 30, finance authorities of Guangxi have actively played their fiscal functions, providing strong support for the endeavor of rural revitalization, modernization of agriculture and rural areas, and a beautiful Guangxi for socialism with Chinese characteristics in a new era. First, finance authorities of Guangxi worked to improve the government input mechanism at all levels in which cities and counties provide the principal funding and central government and autonomous region provide appropriate rewards and subsidies. Second, they stepped up their efforts to clarify the main responsibilities of the city and county finance authorities, and actively work with relevant competent authorities to coordinate all sorts of funds, including the subsidies from higher level government, the general public budget at the local level, the rural revitalization subsidy funds, the consolidated agriculture-related funds, the land transfer income, the land appreciation income, and the compensation from cultivated land occupation, so as to strengthen the funding guarantee for the improvement of the living environment. Third, they gave full play to the guiding role of fiscal funds, put in place relevant policies related to tax reduction and exemption, and encouraged efforts to explore government purchase of services in accordance with laws and regulations.

### **2. Jiangxi Finance: Taking multiple measures to promote healthy development of township economy**

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According to the news released by the Finance Department of Jiangxi Province on September 8, the Finance Bureau of Ganzhou City has focused on key tasks such as enterprise cultivation, industrial transformation and upgrading, and fiscal system reform, in order to improve the level of economic development in townships. First, they focused on supporting and promoting the leading industries, and gave full play to the role of proactive fiscal policies with increased effectiveness. Second, they actively

encouraged residents doing business or working away from home to return to their hometowns to start businesses, and continuously enhanced the new momentum of economic development in townships. Third, on the basis of scientifically defining the base fiscal revenues and expenditures of townships, they further clarified the revenue scope and division ratio between districts and townships, and regulated the division of excess revenue, to fully motivate the finance authorities at both district and township levels, and strengthen their funding support in helping drive township economic development.

### **3. Yunnan Finance: enhance management efficiency through science and technology to serve the high-quality economic and social development of Yunnan**

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According to the news released by the Finance Department of Yunnan Province on September 21, finance authorities of Yunnan have accelerated the strategic deployment of “Digital Yunnan” and comprehensively improved the management efficacy of fiscal invoices. First, enhance vertical coordination to advance the reform of electronic fiscal invoice management. Second, step up the publicity of electronic fiscal invoices to improve the public awareness of electronic fiscal invoices. Third, build the Yunnan Province Non-tax Income Management Platform to strengthen the connection with the government service platform, the integrated budget management system, the departmental business system, the Treasury Information Process System (TIPS) of the People’s Bank of China, the tax collection and management system and the commercial bank system, so as to realize the interconnection between various business systems. Fourth, build a new model for the whole-process supervision of electronic fiscal invoices, in light of the relevant requirements and regulations related to fiscal invoice collection and usage management, ledger management, special administrator registration and record-filing, and verification and write-off management.



## V. Remarks & Opinions

### **1. Ou Wenhan: thoroughly study and implement Xi Jinping's Economic Thought and effectively deliver fiscal work in the new era**

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On August 29, Assistant Finance Minister Ou Wenhan pointed out in his speech at a symposium on the publication of the *Study Outline on Xi Jinping's Economic Thought* that it is imperative to thoroughly study and implement Xi Jinping's Economic Thought and effectively deliver fiscal work in the new era.

First, we must accurately and effectively implement proactive fiscal policies to contribute to stabilizing the macro economy. We need to take into consideration the cyclical changes in economy and the operation of economy and public finance, get the timing, intensity and efficacy of macro regulation right, and make macro regulation more forward-looking, targeted and effective, so as to stabilize growth, employment, and prices. We need to deploy a mix of fiscal and tax policy tools, fully implement policies and measures to reduce taxes and fees, maintain a reasonable level of expenditure, and realize the harmonization between counter-cyclical adjustment and cross-cyclical design of fiscal policies. It is also necessary to strengthen coordination among monetary, employment, industrial and other policies, create greater policy synergy, strengthen communication with market players, and effectively manage expectations and guide market behavior.

Second, we must give full play to the guiding and supporting role of public finance to promote high-quality economic development. We need to concentrate on the main task of supply-side structural reform, actively give play to the supporting, funding and leveraging role of fiscal policies, vigorously promote high-level scientific and technological self-reliance, and continuously improve the level of industrial development. We need to fully tap the potential of domestic demand, fully support rural revitalization, coordinated regional development and new urbanization, steadily and orderly advance carbon peaking and carbon neutrality, promote green and low-carbon economic development, and facilitate the smooth flow of domestic

circulation. We need to intensify internal and external coordination, improve tariff, import tax and export tax rebate policies, carry out in-depth and practical international economic and financial cooperation, and promote interaction between domestic and international circulation to achieve mutual development.

Third, we must resolutely implement the requirements of belt-tightening for Party and government organs, and enhance the capacity for supporting major national strategies and people's livelihood. We need to always adhere to the spirit of hard work, diligence and frugality, strictly control general expenditures, strengthen budget management of the "three public" expenses, strive to reduce administrative operation costs, free up more fiscal resources, and concentrate on meeting mandatory and urgently-needed expenditures. We need to strengthen the analysis of the overall development situation, accurately grasp the key tasks, dynamically optimize the expenditure structure, and ensure the implementation of the major strategic plans of the CPC Central Committee. We need to continue our efforts in ensuring people's access to childcare, education, employment, medical care, elderly care, housing, and social assistance, and concentrate financial resources to make up for shortcomings and weak links, so as to enable all people to gain more benefits of reform and development in a more equitable way.

Fourth, we must speed up the establishment of a modern fiscal and tax system and further enhance the efficacy of national governance. We need to promote the reform of budget management system, enhance its binding force and transparency, and improve the efficiency of fiscal resource allocation and the efficacy of using funds. We need to improve the modern tax system, maintain the overall stability of macro tax burden, continuously optimize the structure of tax system, give better play to the role of taxation, continue to advance the law-based administration of taxation, and promote the construction of a unified national market. We need to promote the establishment of central-local fiscal relations with clearly defined powers and responsibilities, appropriate allocation of financial resources, and greater balance between regions, accelerate the implementation of the reform of sub-provincial fiscal system, and vigorously promote the equalization of basic public services. It is also

necessary to strengthen financial and accounting supervision and improve supervision capacity and level.

Fifth, we must strengthen sustainable fiscal management and effectively prevent and resolve various risks. We need to adhere to the principle of spending within means and determining expenditure according to revenue, and make positive and stable arrangements for revenue and expenditure, while leaving some leeway. We need to improve the policy management system for expenditure related to people's livelihood, strengthen the assessment of fiscal affordability, highlight the bottom line of basic protection, and improve the system and mechanism at the source to prevent excessive commitment and excessive protection. We need to further strengthen the management of local government debts, resolutely curb the increase in hidden debts, and steadily resolve the stock of hidden debts. We need to step up transfer payments, strengthen monitoring and early warning of fiscal operations, implement and improve the mechanism for directly allocating central fiscal funds to prefecture and county level governments, channel more fiscal resources to lower level governments, build the solid foundation for the "three priorities", and ensure the safe and stable operation of grassroots public finance.

## **2. Ou Wenhan: MOF launched a package of policy measures to effectively stabilize the economy**

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On September 5, Assistant Finance Minister Ou Wenhan attended the State Council's regular policy briefing and introduced the progress in MOF's implementation work after the launch of a package of policy measures to stabilize the economy. The first is to further strengthen the VAT refund policy. Starting from July 1, seven industries, including wholesale and retail, accommodation and catering, have been included in the policy scope. This year, the central finance authorities earmarked transfer payments of 1.2 trillion RMB to support the grassroots-level governments in their implementation of VAT refund, and established separate fund allocation and advance appropriation mechanism for VAT refund. From January to July, a total of 2.06 trillion RMB of VAT refund have been processed, delivering policy benefits to more market players. At the same time, budgetary revenue was mobilized in accordance with laws

and regulations to effectively meet the needs of key expenditures. The second is to speed up the pace of fiscal expenditures. As of the end of July, the transfer payments from central government to local government reached 9.17 trillion RMB, accounting for 93.6% of the total annual scale, and all qualified funds have been allocated in full; over 4 trillion RMB of funds directly allocated from central government to prefecture and county-level governments have been disbursed, accounting for 98.3% of the total annual scale, and all localities have already spent 2.1 trillion RMB, accounting for 65.1% of the total amount issued, providing strong support for safeguarding market entities, employment, people's livelihood and protecting the "three priorities" of grassroots public finance. The third is to speed up the issuance and use of local government special bonds. As of the end of August, a total of 3.52 trillion RMB of special bonds have been issued, and the quota for project construction has been basically issued, much earlier than in previous years. At the same time, new infrastructure and new energy projects were included in the scope of key areas supported by special bonds to give better play to the role of special bonds in driving the expansion of effective investment. The fourth is to support micro, small and medium-sized enterprises in tiding over difficulties. While effectively implementing various preferential tax policies, efforts have been made to expand the scale of financing guarantee business and reduce financing guarantee rates. From January to August, the newly increased re-guarantee business of the National Financing Guarantee Fund reached 827.8 billion RMB, a year-on-year increase of 54.9%; the average guarantee rate was 0.68%, a year-on-year decrease of 0.14 percentage points. Government procurement was also stepped up to support small and medium-sized enterprises, and help small and medium-sized enterprises to increase orders, build growth momentum, and stabilize expectations.

### **3. Liu Shangxi: public finance plays a fundamental role in maintaining financial stability**

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On September 12, Liu Shangxi, Director General of the Chinese Academy of Fiscal Sciences, pointed out in his published article that public finance plays a fundamental role in maintaining financial stability, which is mainly reflected in three aspects: First, public finance helps to stabilize the capital market through providing price

benchmarks. For example, one may understand the effects of U.S. monetary policy by studying the fluctuation of the 10-year Treasury bond yield curve. Since the capital market looks to risk-free assets for a pricing benchmark, and treasury bonds are risk-free assets as well as ideal liquidity tools, the Treasury bond yield curve is, therefore, not only the bellwether of the capital market, but also the pricing benchmark of the entire capital market. Second, public finance adjusts money supply by buying and selling treasury bonds. Controlling money supply is one of the most important financial operations. The U.S. and other developed market countries adjust money supply and macro liquidity by buying and selling treasury bonds in the open market. In this sense, public finance plays a fundamental role in financial stability. China generally does not adjust money supply by directly buying and selling treasury bonds, but treasury bonds still play an indispensable role in the operation of capital market and monetary policy. Third, public finance plays a fundamental role in financial bailout. From the perspective of financial bailout, financial problems ultimately require fiscal backstop. For instance, in the 2008 financial crisis, the U.S. government used taxpayers' money, i.e., fiscal funds, to bail out financial institutions and ultimately helped them get out of the crisis.

#### **4. Liu Shijin: the integration of digital economy and production presents three characteristics**

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On September 23, Liu Shijin, Vice Chair of the Economic Affairs Committee of the CPPCC and Vice Chair of the China Development Research Foundation, pointed out in his interview with the *Economic Daily* that the integration of digital economy and production presents three characteristics. First, the unprecedented increase in information density. Digital economy is predicated on the expansion of data information or data resources by several orders of magnitude. The increase of information density, network connection, and optimization of space and time may be the several key variables that need to be grasped after digital technology is applied to real economy and transformed into digital economy. Second, the penetration from consumption to production. The integration of digital economy and real economy begins in the consumption sector, especially in the retail sector facing consumers, largely because individual transaction process, especially decision-making process, is

relatively simple. After resolving the trust problem through the payment platform, the transaction cost problem between merchants and consumers is basically addressed. The rapid development of this business form would have great impact on the commercial organization of the entire retail chain, as the original organizational structure is deconstructed or reorganized, giving rise to a new business form. If penetration into the consumption sector is the first part of the integration of digital and real economy, then the other part is penetration into the production sector, i.e., for merchants. Third, the rapid development of digital technology. The role of prediction technology and block-chain technology in the integration of digital and real economy is getting increasingly stronger. Time series forecasting has shifted from traditional machine learning to deep learning based on neural networks, which would have great potential for performance optimization.

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