2014
ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 35

October 10, 2014

Statement by the Hon. **YI GANG**
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Alternate Governor of the International Monetary Fund for
the People's Republic of China

I. Global economy and financial markets

The global economy continues to recover, but the pace of recovery remains uneven and fragile among advanced economies, and growth in emerging market economies has moderated. Potential growth in many countries appears to have declined, while global market and liquidity risks have increased. In this context, policymakers must strengthen their efforts on supporting growth and employment and raising potential growth, while at the same time taking appropriate measures to contain financial vulnerability.

In advanced economies, more actions are needed, particularly in Europe and Japan, to put the recovery on a solid footing. Macroprudential measures should be implemented, as appropriate, to contain financial excesses. An effective communication strategy would help ensure an orderly normalization of monetary policy in the U.S. and minimize potential adverse spillovers.

In emerging market economies, policies should focus on strengthening growth prospects, reducing vulnerability, and beefing up policy buffers. Pushing forward structural reforms, strengthening institutional capacity, and taking prompt actions to address financial vulnerabilities have become increasingly important, in light of the subdued external demand and uncertain global monetary environment.

With the increasing interconnectedness in the global economy, policy cooperation and coordination are not only desirable but also crucial for global stability and prosperity. Work on reforming the international financial architecture—including the global financial safety net, resolutions of financial institutions, and the financial supervisory and regulatory framework—should continue in order to make the international monetary system less susceptible to and affected by future crises.

II. The Chinese economy and policies

China's macrofinancial environment remains firm. Despite downward pressure, the economic growth is still within a reasonable range, with real GDP growth registering 7.4 percent in the first half of this year, while retail sales, industrial value-added, and exports grew, respectively, by 12.1, 8.5, and 3.8 percent in the first eight months of this year. Meanwhile, prices in China are basically stable, with the year-on-year CPI and PPI inflation rates registering 2.2 and -1.6 percent, respectively, in the first eight months of this year. Looking ahead, we are confident that we will achieve around 7.5 percent growth in 2014, and inflation will continue to be subdued in the coming months.

Structural adjustment in the Chinese economy continues to proceed. The size of the tertiary industry has exceeded that of the secondary industry since 2013 and continued to rise, reaching 46.6 percent of GDP in the first half of this year, while final consumption expenditure reached 52.4 percent of GDP. Against this backdrop, and together with the increasing flexibility in the RMB exchange rate, the current account surplus narrowed further to 1.8 percent of GDP in the first half of this year from 2.0 percent of GDP in 2013. On the other hand, further progress has been achieved in implementing the Third Plenum reform blueprint to give the market a decisive role in resource allocation. For instance, interest and exchange rate reforms have advanced further, the overall plan of deepening the fiscal and taxation reform and the amendment to the budget law have been approved, the mobility of labor between urban and rural areas have been promoted, and mixed ownership reforms of state-owned enterprises have proceeded.

The Chinese authorities will maintain consistency and stability of macroeconomic policies, endeavor to maintain growth at a reasonable rate, promote employment, and guide inflation expectations. On monetary policy, the Chinese authorities will maintain a prudent policy stance and utilize a variety of monetary policy tools to maintain appropriate liquidity and promote reasonable growth in monetary aggregates and the scale of social financing. On fiscal policy, the Chinese authorities will continue to implement proactive fiscal policy while keeping the deficit ratio unchanged, and address potential risks to economic stability. To improve people's well-being, more measures will be taken to increase support to employment, especially for university graduates and rural migrants. On financial policy, the Chinese authorities will continue to exercise regulatory prudence in supervising bank and nonbank financing, and will monitor potential risks in the financial system closely.

At the same time, structural adjustments will be pushed forward. Market-based interest rate reform will continue so as to improve the efficiency of financial resources and improve the monetary policy framework. The RMB exchange rate reform will be further improved, while the pace of capital account convertibility will be steadily promoted. A crisis management and resolution framework—including a deposit insurance scheme—will be established in due course, while capital market development will be promoted to enhance the role of the market—particularly direct financing—in serving the real economy. The Chinese authorities will continue to deepen the fiscal and taxation reform by improving budget management, optimizing taxation system, and aligning government duties with spending responsibilities to establish a transparent, efficient, and sustainable modern fiscal framework. Meanwhile, reforms of state-owned enterprises and financial institutions will continue, while urbanization and hukou reforms will be undertaken as planned. By achieving a strong, sustainable, and balanced growth, the Chinese economy will continue to contribute to international monetary stability.

The economic growth of Hong Kong SAR moderated in the first half of 2014 to 2.2 percent year-on-year from 2.9 percent in 2013. Exports of goods improved modestly on the back of recovery of the advanced markets, while domestic demand and exports of services slowed down amidst weaker investment expenditure and tourist spending. The unemployment rate remained relatively stable at 3.2 percent, and inflation eased further to 3.5 percent in the second quarter. The Hong Kong SAR economy is projected to grow by 2–3 percent in 2014. Meanwhile, the easing trend of inflation will continue and the underlying composite CPI is forecasted to be 3.5 percent.

The Macao SAR economy grew by 10.2 percent in the first half of 2014 when the faster growth of investment offset the moderated gain in service exports. The unemployment rate stabilized at the low level of 1.7 percent, while the inflation rate stayed at a relatively high level of around 6.0 percent. Underpinned by large-scale construction projects and continued growth of the tourism sector, the expansion trend of the economy would sustain in the second half of the year. For the whole of 2014, the economy is anticipated to achieve a high single-digit rate of growth.

III. Future development and reform of the IMF and the World Bank

To cope effectively with the challenges ahead, the IMF's governance structure needs to be representative of the development and change of the present global economy. Thus, we are deeply disappointed with the lack of progress in implementing the 2010 quota and governance reforms since the last meeting, and that the IMF continues to rely on provisional borrowing arrangements to boost its lines of defense. We urge the U.S. to ratify the 2010 reforms expeditiously to ensure that the IMF has the required legitimacy and credibility to promote cooperation, as well as to have the capacity to respond to future crises. Doing so will also preserve the IMF as a quota-based institution, and provide a foundation to carry out subsequent governance reforms. If the 2010 reforms are not ratified by year-end, we call on the IMF to act swiftly, including assessing all feasible and pragmatic options for next steps, so that we can move forward with an early and effective solution.

The IMF needs to continue to enhance its crisis prevention capacity in the face of the increasingly complex and interconnected global macrofinancial environment. While we welcome the progress made in strengthening the IMF's surveillance and the Financial Sector Assessment Program (FSAP) since the last reviews, the IMF should continue to upgrade its toolkits and strengthen its analysis of spillovers, particularly from reserve currency-issuing countries. We also agree that the IMF should mainstream the discussion of the macrofinancial issues in Article IV surveillance, and we concur that systemic risks should be the organizing principle for all aspects of the FSAP. Given the severe shortcomings in the External Balance Assessment methodology, we view that the IMF should refrain from using the findings obtained under such methodology in policy discussions.

To further enhance the resilience of the international monetary system, the Fund should continue to promote reforms of crisis resolution frameworks, in addition to strengthening the global financial safety net and cooperating with regional financing arrangements. On sovereign debt restructuring, we welcome staff's efforts on reforming the IMF's exceptional access framework to make it more flexible and effective, but we view that more work is needed to examine the operational issues and the market implications of their proposal. In light of the difficulties posed by collective action problems, we support the proposed contractual reforms and welcome the IMF to play an active role in the area. On cross-border resolution, we encourage the IMF to continue to cooperate with the Financial Stability Board in strengthening international frameworks for resolving both globally and domestically systemically important financial institutions.

To make global growth more inclusive, the Fund should continue to provide strong support to low-income countries (LICs). We welcome the IMF and the international community to provide assistance, as needed, to those countries affected by the Ebola outbreak. While we welcome the IMF's latest proposal on reforming its debt limit policy toward LICs, we encourage staff to refine their recommendations to make the policy more effective in addressing LICs' development needs, and we call for all members to reach a consensus expeditiously. We also encourage the IMF to continue to optimize resource allocations and seek collaboration with other organizations to ensure that LICs could share the benefits of the FSAP.

We affirm the reform progress of the World Bank Group (WBG). The new country partner framework, equipped with systematic country diagnosis, enables the WBG to fully assess the development challenges its clients face and better provide tailored development solutions based on clients' needs. The new financial framework helps the WBG to mobilize more resources and encourage financial innovation to increase its lending capacity. The principle of working as one WBG scales up collaboration across the WBG to maximize the development impact. All these have laid a solid foundation for the WBG to maintain and increase its influence in the field of international development assistance. We expect that the WBG will continue to reform, by introducing more flexible regimes, innovating instruments and services, leading new ideas, and thinking and enhancing cooperation with middle-income countries to consolidate its role as the largest global development institution. To support the WBG's reform and development, China will set up its first single donor trust fund in the WBG with a total amount of US$50 million. By supporting project preparation and knowledge sharing, the trust fund will further promote the cooperation between China and the WBG and make new contributions to ending poverty and boosting shared prosperity.

We expect the WBG to further strengthen its ability to mobilize more financial resources. In order to fill the huge financing gap for development, especially the financing gap in infrastructure, the WBG should continue to take all possible actions to increase its lending capacity and enhance cooperation with other multilateral development banks and private sector through cofinancing and other instruments by using its global impact and convening power. In this connection, we expect the Global Infrastructure Facility (GIF) to start operations in December 2014. We expect the GIF, as an innovative financing mechanism and platform, will complement with other resources across the WBG and work together to push forward some successful pilot projects with strong demonstrative effect which will lay a solid foundation for the GIF's future development. We are of the view that the establishment of the New Development Bank (NDB) by BRICS countries and the Asian Infrastructure Investment Bank (AIIB) is to provide a necessary complement to current institutions, including the WBG. It will help develop joint forces to increase the overall capacity of international multilateral development aid. We encourage the WBG to provide the necessary intellectual and technical assistance to the two banks and strengthen cooperation with them, including conducting cofinancing projects in the future.

We expect the WBG's business to be more concentrated and selective in order to maximize its development impact with limited resources. Under the twin goals of ending extreme poverty and promoting shared prosperity, we expect the WBG to transfer more development resources to low-income countries to build their self-development capacity; and enhance loan and knowledge cooperation with middle-income countries to consolidate their progress in poverty reduction and help them to leap over the middle-income trap. In terms of projects, we are looking forward to more transformational projects with strong driving effects and regional impact, which will facilitate global industry transfers, cultivate new growth poles, and promote regional and south-south cooperation.

We expect the WBG to continue to lead global development ideas and thinking. We welcome the WBG to actively participate in the post-2015 agenda, take collective action to tackle climate change, etc. We hope the WBG would function as an important bridge for different countries' mutual beneficial cooperation. We encourage the WBG to further connect its own goals, business models, and standards with relevant international agendas to increase its international influence. In the meantime, we hope the WBG would draw on the development experiences, innovative thinking, and case studies from middle-income countries, and systematically summarize them and disseminate for global knowledge sharing. To achieve this, it would be helpful to increase the representativeness of the staffs from middle-income countries in the WBG, and we hope the WBG's management would give priority to and actively push forward this issue.