



International Monetary and Financial Committee

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**Statement by Yi Gang,
Deputy Governor, People's Republic of China**

On behalf of the People's Republic of China

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to the Twenty-Eighth Meeting of the International Monetary and Financial Committee
Washington, D.C., October 12, 2013**

I. Global economy and financial markets

Substantial uncertainties remain in the global economic outlook, as a number of key risks in advanced economies are yet to be fully addressed, and emerging market and developing economies have witnessed moderation in economic growth. Thus, policymakers have to strengthen their efforts, particularly in setting comprehensive growth and reform strategies, in order to set the global economy on a path of strong, sustainable, and balanced growth.

More policy progress in advanced economies is called for. In the euro area, stronger political commitments are needed to complete the banking union, including the single resolution mechanism. Meanwhile, fiscal consolidation must continue but at a measured pace, and structural reform remains essential to enhance competitiveness and growth potential. In the U.S., fiscal uncertainties—stemming from the impending debt ceiling and the absence of a credible medium-term fiscal consolidation plan—must be addressed promptly. In Japan, concrete structural reform and fiscal consolidation plan have to be spelled out in order to avoid overburdening the monetary policy in supporting the economy.

While unconventional monetary policies helped stabilize growth and financial markets in advanced economies after major crises, more attention should be given to the risks associated with the prolonged use and disorderly exit of such policies. Unconventional monetary policies can only buy time and should not substitute for the needed structural reform and policy adjustments. Policy coordination and clear and effective communications will be essential to ensure the smooth and orderly exit of unconventional monetary policies.

Emerging market and developing economies remain the major growth engine with faster-than-average growth and relatively good fundamentals. These economies, however, need to strengthen resilience as growth in some of the economies has slowed, and the recent market turbulence episode has revealed existing vulnerabilities in some of them. Policymakers in these economies need to rebuild policy buffers and undertake structural reform to strengthen growth prospects. A flexible policy stance and enhanced safeguarding measures, including emergency swap lines, will also be helpful in assisting the economies in facing the challenges posed by the external environment.

II. Chinese economy and policies

The Chinese economy maintained a solid growth pace. Real GDP grew by 7.6 percent on a year-on-year basis in the first half of 2013, within a reasonable growth range. In the first

eight months of this year, fixed asset investment grew by 20.3 percent, whereas retail sales and industrial production grew by 12.8 percent and 9.5 percent, respectively. The most recent economic data indicate that the Chinese economy will continue to grow at a steady pace in the near term and is on track to reach this year's growth target of 7.5 percent.

Consumer price inflation remained subdued. The year-on-year CPI was 2.5 percent in the first eight months of this year, after registering 2.6 percent in 2012. While producer price inflation has been negative for 18 consecutive months, upward pressure on labor, service, and rental costs remain. Therefore, the Chinese authorities remain highly vigilant to inflation pressure. The full-year CPI in 2013 is likely to lie below the official projection of 3.5 percent.

Structural rebalancing of the economy continues to proceed, with the share of final consumption in GDP picking up over the past two years to reach 49.2 percent in 2012. With the increasing importance of the service sector in the economy, growth of the tertiary industry outpaced that of the secondary industry in the first half of 2013. Assisted by structural adjustments in the economy, the current account surplus remained subdued at 2.4 percent of GDP in the first half of 2013.

Going forward, the Chinese authorities will maintain the consistency and stability of macroeconomic policies. On the monetary front, a prudent monetary policy will be continued. Policy measures will be made more targeted and better coordinated, with fine-tuning and preemptive adjustments when necessary, in order to create stable financial and monetary conditions for structural adjustments. On the fiscal front, the policy stance will remain proactive to support growth with targeted measures, and the transparency, efficiency, and sustainability of local government fiscal operations will continue to be safeguarded. On the financial front, the financial sector performed generally well. The Chinese authorities will continue to strengthen financial infrastructure and to coordinate closely on supervisory oversights, in order to guard against systematic and regional financial risks.

While maintaining macroeconomic stability, the authorities will continue to pursue reforms to improve the quality and efficiency of economic development. Conditions are in place for undertaking further interest rate liberalization and capital account convertibility. The Chinese authorities remain committed to exchange rate reform, and will enhance a two-way movement in the RMB exchange rate around the appropriate equilibrium level. To ensure sustainable growth, environmental protection will be strengthened through resource pricing reform, while innovation and structural upgrading will continue to be facilitated. Private sector participation in the economy will also be encouraged, and the authorities are strongly determined to promote urbanization and strengthen social protection.

The Hong Kong SAR economy grew moderately in the first half of 2013 by 3.1 percent, up from 1.5 percent in the full year of 2012. Domestic demand continued to be the main driving

force amidst favorable job and income conditions, while the external sector was still constrained by the unsteady global economic environment. The labor market remained in a state of full employment, with the unemployment rate staying low at 3.3 percent. Underlying consumer price inflation remained largely stable at around 3.9 percent in the first six months. Looking ahead, the Hong Kong SAR economy is forecasted to grow by 2.5 percent–3.5 percent, with an inflation of 4.0 percent in 2013.

Macao SAR's economic growth reached 10.5 percent in the first half of 2013. The growth of tourism-led service exports accelerated, while private consumption and investment continued to expand. Meanwhile, the unemployment rate stayed below 2.0 percent, while the inflation rate remained relatively high at about 5.0 percent. Although the pace of economic expansion is anticipated to slow slightly for the rest of the year, real gross domestic product would achieve a single-digit growth rate for the whole of 2013.

III. The role of the IMF

To ensure the IMF's credibility, legitimacy, and effectiveness, it is more urgent than ever to complete the 2010 quota and governance reform, to which the entire membership has remained committed. We urge those members which have not ratified the 2010 quota and governance reform to do so as soon as possible. In the meantime, we encourage the IMF and its members to step up the process for the 15th General Review of Quotas and work on the new quota formula, in order to ensure timely completion by January 2014. We emphasize that the new formula should reflect the relative weights of member countries in the world economy, and that the actual quota shares should not deviate too much from the calculated quota shares.

The IMF needs to continue to upgrade its knowledge and expertise in order to respond effectively to new trends and challenges in the medium and long term. We welcome the progress made in the 2011 Triennial Surveillance Review, particularly on the Integrated Surveillance Decision. We look forward that the Fund will make further adjustments to surveillance focus and improve surveillance effectiveness in the upcoming Triennial Surveillance Review to be launched in 2014. In our view, the Fund's nearly universal membership makes it particularly well placed to analyze the interconnectedness and spillover effects among members, and to promote coordination of members' policies. We encourage continued efforts to strengthen multilateral surveillance; in particular, further improvements are necessary to address the weaknesses of the External Balance Assessment methodology. We support the Fund's efforts in strengthening financial sector surveillance and implementing the Financial Surveillance Strategy. We recognize the importance of debt sustainability for all countries, and we look forward to further enhancement of the Fund's debt sustainability framework for LICs. We also welcome the latest update on the assessment of vulnerabilities and risks in LICs and the upcoming work on enhancing financial system surveillance on LICs.

Cooperation between the IMF and other international organizations remains crucial. It is desirable for the IMF to cooperate closely with other international organizations—such as the FSB, the BIS, and the OECD—in areas of mutual interest, including data gaps, macroprudential policies, international taxation, and financial sector issues. In any case, we encourage the IMF to stick to its areas of comparative advantage, and to continue improving the international monetary system. In view of the proliferation of the Regional Financing Arrangements (RFAs), we encourage the IMF to seek scope for increased IMF-RFA coordination and cooperation, so as to leverage on the RFAs' regional expertise and financial resources.