International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

Statement by the Honorable Zhou Xiaochuan
Governor, People's Bank of China

On behalf of China

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Governor of the IMF for China

to the Thirtieth Meeting of the International Monetary and Financial Committee

Washington, D.C., October 11, 2014

I. Global economy and financial markets

The global economy is not yet out of the woods, as the pace of recovery remains uneven and fragile among advanced economies—with increasing divergence between the economic outlook in the U.S. and elsewhere—while growth in emerging market economies has moderated from high levels. Meanwhile, global market and liquidity risks have increased, while signs of moderation in potential growth have become more visible in many countries. Thus, policymakers must persevere with their policy efforts on supporting growth and employment, while at the same time not losing sight of the need to contain financial vulnerability and raise potential growth.

In advanced economies, more actions are needed to put the recovery on a solid footing. In the U.S., an effective communication strategy would help safeguard an orderly normalization of monetary policy, while fiscal uncertainty has to be suppressed. Meanwhile, macropudential measures should be implemented, as appropriate, to contain financial excesses, while structural measures should be deployed to boost potential growth. In Japan, a concrete medium-term fiscal consolidation plan and a steadfast implementation of structural reforms are needed, and the monetary policy should not be overburdened to support the economy. In the euro area, further policy efforts are warranted to contain the downside risks to growth and inflation, while structural reforms—as well as repairs and reforms of the banking system—should continue.

In emerging market economies, policies should focus on strengthening the growth prospects, despite the fact that these economies' growth remains solid and continue to be the major driver of global economic growth. In particular, policymakers should continue to push forward structural reforms and strengthen institutional capacity, while prompt actions should be taken to address financial vulnerabilities in the economy, given that the global monetary environment is expected to remain highly volatile going forward.

With increasing interconnectedness in the global economy, policymakers should continue to strengthen policy cooperation and coordination, with due regard to the spillovers of domestic policies on international monetary stability. Meanwhile, work on reforming the international financial architecture—including the global financial safety net, resolutions of financial institutions and sovereigns, 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, 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, inflationary pressure remains subdued, 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, while the banking sector continues to perform well. Looking ahead, economic indicators suggest that the Chinese economy will continue to expand at a steady pace, while inflation is expected to stay mild amidst the stable macroeconomic environment.

Structural adjustment in the Chinese economy continues to proceed. The size of the tertiary industry has exceeded that of the secondary industry since 2013, while the role of consumption in the economy continued to strengthen on the back of vibrant labor income growth. Against such 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 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 continue, under a prudent policy stance, to conduct credit and macroprudential policies as, appropriate, to ensure reasonable growth in money, credit, and social financing while conducting liquidity operations, as needed, to maintain an appropriate level of liquidity. On fiscal policy, the Chinese authorities will continue to implement proactive fiscal policy while keeping the deficit ratio unchanged, and to deepen fiscal and tax reforms to establish a transparent, efficient, and sustainable modern fiscal framework. 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 and reforms 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. Meanwhile, reforms of the fiscal system, state-owned enterprises, and financial institutions will continue, while urbanization and hukou reforms will be undertaken as planned. By striking a fine balance in promoting reforms and structural adjustments, on one hand, and supporting growth stability, on the other, 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 the 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. The role of the IMF

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. 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 can 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.