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

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Governor of the People's Bank of China
at the 36th Ministerial Meeting of the International Monetary and Financial Committee
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I. Global Economic and Financial Developments

Since our last meeting in the spring, the global recovery has continued to strengthen. The macroeconomic situation in major developed and emerging market economies has broadly improved, but the downside risks cannot be ignored. With policy support and cyclical pick-up, domestic demand in major developed economies such as the United States, the European countries, and Japan has become more buoyant and market confidence has been bolstered. Global trade growth has accelerated and the financial conditions have remained accommodative. With the improved external environment, emerging markets and developing countries have seen their growth gradually gaining momentum. The world economy still faces long-term challenges such as low productivity growth, the aging population, and widening income gaps, and the outlook tilted to the downside in the medium term. At the same time, more rapid normalization of monetary policy in some developed economies could lead to another round of capital flow reversal in cross-border capital flows, affecting vulnerable countries that have been plagued by overleveraging and currency mismatches. In addition, geopolitical risks, the tendency of inward-looking policies, and possible fiscal policy adjustments have all created uncertainties in major developed countries. In this context, all parties need to work together to maintain the momentum of the recent recovery through monetary and fiscal measures as well as structural reforms, in order to improve the medium-term prospects for growth.

It will be necessary for developed economies to pursue a monetary and fiscal policy mix to improve the structure of their spending and revenue, ensure medium-term debt sustainability, provide effective fiscal support for growth, and gradually reduce the over-reliance on accommodative monetary policy. However, in pursuing different monetary policy stances, either by continuing to be accommodative or starting to normalize, these countries need to be fully aware of the financial stability risks and spillover effects. They need to effectively carry out structural reforms, promote public and private investments, enhance labor market flexibility, encourage innovation, and, consequently, improve their growth potential.

Emerging market economies should continue to follow sound monetary and fiscal policies. Risks associated with high leverages and currency mismatches in the financial system, as well as in the corporate and household sectors, could be expeditiously addressed. Using prudential financial policy will boost their resilience to fluctuations in capital flows and commodity prices. Fiscal institutions should be enhanced, budget and debt management need to be strengthened, and tax administration and the efficiency of fiscal expenditure should be improved. Efforts should also be made to advance economic transformation and upgrading, diversify industrial production, and promote trade and investment by creating a favorable environment, so as to enhance long-term growth potential.

All parties should continue to promote multilateral cooperation, strengthen global macroeconomic policy coordination, properly address spillovers, build up an open and free multilateral trade and investment system through various regional and multilateral initiatives, and foster the integration of global trade and investment. In addition, in the face of challenges to global financial stability, countries need to consistently implement financial sector reforms, jointly develop and enhance the global financial safety net, and improve the stability and resilience of the International Monetary System.

II. Economic and Financial Developments in China

The Chinese economic growth has improved amidst positive signs of steady consolidation. For the first half of 2017, GDP grew 6.9 percent YoY, an acceleration of 0.2 percentage points compared with 2016. Consumption grew steadily, with total consumer retail sales increasing by 10.4 percent YoY. Investment rose steadily, by 8.6 percent YoY. Foreign trade broadly performed well, as imports and exports increased by 25.7 percent and 15 percent YoY, respectively. In August, the Manufacturing PMI registered 51.7 percent, indicating a continued expansion in economic activities. Overall employment remained stable, with 9.74 million new additions to the urban employment over the first eight months of the year; the inflation rate was generally stable, as the consumer price index (CPI) rose 1.5 percent YoY. The M2 growth rate continued its downward movement, falling to 8.9 percent in August YoY. The economy is expected to meet the annual growth prediction of around 6.5 percent made by the government.

The structure and quality of economic growth has continued to improve. In the first half of the year, the value-added of the tertiary industry accounted for 54.1 percent of GDP, exceeding that of the secondary industry by 1.3 percentage points. Final consumption expenditure contributed 63.4 percent to GDP growth; and the current account surplus continued to shrink, to around 1.3 percent of GDP. China's supply-side structural reform has made positive progress. In particular, the rapid development of new technologies has led to the creation of numerous new jobs. The expansion of the Internet industry and its collaboration with traditional industries have boosted the effectiveness and efficiency of productive activities.

The financial sector has moved on a healthier track, with risks contained under better management. In recent years, due to factors such as the economic slowdown, structural adjustment, and high volatility in the international financial markets, the potential risks in China's financial industry have increased but, in general, the risks are manageable. The Chinese government has begun to tackle these problems. Financial regulation has been significantly strengthened, the risks associated with shadow banking have been mitigated, the nonperforming loans have been kept low, corporate leverage leveled off, and the overheating of the real estate market in some areas has been brought under control. The National Financial Conference held in July this year reaffirmed the priority to actively guard against systemic financial risks and decided to set up the State Council Financial Stability and Development Committee to strengthen the role of the central bank in macroprudential management and systemic risk prevention. The Chinese government has the capacity and confidence to prevent systemic risks and maintain healthy and stable economic operations.

Looking forward, the Chinese government will continue to maintain the stability and continuity of its macroeconomic policies. This year, it has been emphasized that monetary policy should be “prudent and neutral.” More attention will be paid to balancing between maintaining steady growth on one hand, and avoiding the build-up of systemic risks through deleveraging, preventing, and controlling asset bubbles, on the other. A full range of monetary policy tools will continue to be used to keep liquidity broadly stable, facilitate the formation of an appropriate level of market interest rates, and improve the transmission channel to support the flow of financial resources to the real economy. China will further improve its macroprudential policy framework and enhance the macroprudential management of systemic risks. Fiscal policy will be pursued in a more active and effective manner, with the deficit in 2017 to be maintained at 3 percent of GDP, but the absolute amount to be increased by 200 billion yuan over the last year. In addition, the Chinese government will continue to promote structural reforms, especially on the supply side, in order to replace old economic drivers with new ones and achieve the structural optimization and upgrading of its economy.

Economic recovery in Hong Kong SAR has strengthened. The economy sustained above-trend growth, with real GDP expanding by 3.8 percent YoY in the second quarter of 2017, supported by robust domestic demand growth and continued pick-up in external demand. The labor market remained tight, with the unemployment rate staying at a more-than-three-year low of 3.1 percent in the second quarter, while inflation pressures remained moderate with underlying inflation averaging 1.7 percent in the first half of the year. With the support of external and domestic demand, the economy of Hong Kong SAR is expected to grow at 3-4 percent for 2017.

The Macao SAR economy began to pick up remarkably in the third quarter of 2016. For the whole year, GDP growth was negative 2.1 percent YoY, a significant improvement from negative 21.5 percent in 2015. In the first half of 2017, the economy maintained a high growth rate of 10.9 percent, driven by exports of services. At the same time, the macroeconomic environment remained stable, with unemployment staying at a low level of 2.0 percent and inflation falling to 0.9 percent. Public finances are in a healthy state and continue to maintain a fiscal surplus. The growth of the Macao SAR economy is expected to turn positive in 2017-2018.

III. IMF Reforms

The IMF should further strengthen its surveillance and policy advice, advocate multilateralism and global economic cooperation and integration, facilitate international policy coordination, and mitigate the downside risks to global growth. Priorities should be given to strengthening surveillance on the macroeconomic and financial policies of its member countries. It should comprehensively analyze the current policy uncertainties in, and possible spillover effects from, the major economies. Capital flows and macrofinancial risks should be closely monitored with advice for improving macroprudential management and mitigating these risks. In addressing key obstacles to improving potential growth in developed countries, especially in the areas of labor force participation, wage growth, aging population, and labor productivity, the IMF is encouraged to work with international organizations in relevant fields to enhance its analysis and advice on structural reforms. We support an active role for the IMF in multilateral macroeconomic policy coordination, its continued commitment to the principles of globalization and multilateralism, and its efforts in assisting the sustained and all-round recovery of global trade and investment.

The IMF should continue to push ahead with quota and governance reforms to ensure a quota-based and adequately resourced institution, and it should play a central role in the global financial safety net. We support the IMF's efforts to intensify cooperation with the regional financial arrangements and to further enhance the effectiveness of its lending facilities. In order to play a central role in the global financial safety net, the IMF needs to fundamentally ensure the adequacy of its resources, and the key is to promote quota reform. We call on all parties to demonstrate a spirit of cooperation and ensure that the Fifteenth General Review of Quotas is completed within the timetable established by the consensus of its membership, so as to narrow the gap in quotas, improve the quota structure, reduce out-of-lineness, and increase the representativeness of dynamic emerging market and developing economies.

The IMF is encouraged to enhance capacity development for its members. The IMF should use more expertise in macroeconomic policies to help its members, especially the developing and low-income countries, to establish and enhance policy frameworks and institutions, including an independent monetary policy framework, a flexible market-based exchange rate regime, strict fiscal discipline, budget system and debt management, and an effective tax system in line with national conditions. These will enable member countries to improve their overall economic governance, reduce policy errors and resource misallocation, and achieve growth and stability. Building on its previous efforts, China has decided to further increase its contribution to the IMF's capacity development activities and has established with the IMF the Joint China-IMF Capacity Development Center to serve the capacity-building needs of developing countries, including those covered by the "the Belt and Road" initiative.

The IMF should continue to push for the reform of the International Monetary System. We support continuing the study on expanding the use of the SDR to enhance the resilience of the International Monetary System. We expect the IMF to focus its efforts on addressing the inherent weaknesses in the existing International Monetary System. We call on all parties to continue to improve the sovereign debt restructuring framework, strengthen coordination between debtors and creditors, and promote the use of enhanced contractual terms. China is willing to continue to closely work with all parties to advance the reform of the International Monetary System to improve global economic governance and safeguard global stability.