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On behalf of People's Republic of China

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I. World Economy and Financial Markets—Outlook and Policy Response

The world economy is recovering, as evidenced in improving investment, employment, and consumption. However, the outlook of the world economy and financial markets remains uncertain in the aftermath of the financial crisis. The international commodity market remains volatile. Geopolitical conditions become increasingly turbulent. We should further strengthen coordination and cooperation and work together to address the challenges in order to promote strong, balanced, and sustainable growth of the world economy.

The accommodative monetary policies, massive fiscal stimulus, and financial support policies adopted by advanced countries after the crisis broke out have helped mitigate the impact of the crisis and stabilize the economy and the financial sector. However, risks and vulnerabilities, if not attended to, will remain in the way of economic recovery in the countries concerned. First, fiscal burden is hefty, and attention should be paid to medium-term sustainability. Second, the financial sector has not fully recovered, and needs to be reformed in a timely manner. Third, loose monetary conditions build up inflationary pressures. As we have observed, inflation has become a policy issue in both advanced and emerging market economies.

For advanced countries, to achieve stable recovery so as to lay a solid foundation for the global recovery, they should, first and foremost, work out a path towards fiscal sustainability. The Fund has set targets for fiscal consolidation of advanced countries, i.e., to reduce government debt to the pre-crisis average of 60 percent of the GDP within 20 years. Efforts should be made to reach the target to restore market confidence and reduce the difficulty and cost of government and banking sector financing, and to address global imbalances from its root cause. In particular, systematically important advanced countries need more rigorous fiscal consolidation targets due to their tremendous spillover effects.

Second, more effective measures are needed to reduce sovereign debt risks. At the current stage, the European sovereign debt crisis remains severe, the various countries concerned need to seek political consensus, beef up fiscal consolidation efforts, and make intraregional cooperation mechanisms more effective so as to dispel market mistrust and enable stabilizers to play their role.

Third, it is necessary to accelerate reform and restructuring of the banking sector, so as to eliminate vulnerability of the sector, cut off the transmission channels of crises and risks, restore its viability, and support solid recovery of the real economy.

Fourth, it is necessary for major central banks to closely monitor the domestic and global inflation situation, conduct adequate coordination and communication with the various parties on the timing, pace, and implementation of an exit from quantitative easing, so as to avoid the possible shocks to global markets.

The majority of emerging market economies and developing countries have continued to grow strongly, but great volatility of cross-border massive capital flow brings heightened risks in terms of inflation and asset bubbles. Therefore, emerging market economies and developing countries will need to focus on managing the challenges of capital flow and inflation expectations. A combination of sound fiscal and monetary policies would also need to be implemented in a flexible manner. Moreover, counter-cyclical macroprudential and capital account management policies are also essential for these economies. They will need to closely watch the potential changes in the monetary policy stance of developed countries in order to manage the risks of the reversal of cross-border capital movement. It is necessary for the Fund to strengthen macroeconomic policy surveillance and coordination of the major reserve currency-issuing countries, monitor and make early warning on the sources of capital flow fluctuations, and provide timely and effective analysis and proposals to support efforts of emerging market and developing countries to preserve economic and financial stability.

The situation of the global imbalances has continued to improve. China and many other emerging market economies have adopted policy measures to boost internal demand against the backdrop of weakened global demand as a result of the financial crisis. These policy measures have shored up global recovery and contributed to reducing global imbalances. It is worth noting that since the outbreak of the financial crisis, large fluctuations in international capital flow, the exchange rate of major reserve currencies, and the commodity prices have hindered the domestic process of stabilizing and recovering economic growth in many countries and added to the difficulties in structural reform and fiscal consolidation. To meet these challenges, and to rebalance global economy at an earlier date, it is necessary to have in-depth and thorough review and reform of the current international monetary system, so that the reform will help mitigate the above shocks, speed up the unwinding of imbalances, and contain the inherent sources that have led to the build-up of such imbalances, and achieve strong, sustainable, and balanced growth of the world economy.

II. China: Economic Performance and Policies

Since last fall, the Chinese government has continued to strengthen macroeconomic management and structural reform in response to the complicated economic environments at home and abroad. The Chinese economy has maintained steady and rapid growth, and the economic structure has further improved.

In the first quarter of 2011, China's GDP grew 9.7 percent year-on-year. Industrial production, consumer demand, and fixed asset investment have continued their return to normal levels. In the first three months this year, added value of industrial output increased 14.4 percent year-on-year, a deceleration of 5.2 percentage points from the corresponding period of last year. Aggregate retail sales were up 16.3 percent, a deceleration of 1.6 percentage points. Urban fixed asset investment was up 25.0 percent, a deceleration of 1.4 percentage points.

Meanwhile, trade surplus shrank further. In 2010, the share of trade surplus in GDP decreased to 3.2 percent. In the first three months of 2011, imports and exports increased 32.6 percent and 26.5 percent year-on-year respectively, resulting in a trade deficit of US$1.02 billion. In February alone, exports declined 35.8 percent month-on-month, with a trade deficit of US$7.3 billion, the biggest monthly trade deficit since March 2004.

The biggest challenge for China's economy is the build-up of inflationary pressure. CPI increased 4.7 percent in the last quarter of 2010, and rose 5 percent in the first quarter of 2011.

The Chinese government has taken comprehensive measures to address the inflationary pressures. Continued efforts have been made to enhance the agricultural productivity to ensure adequate supply of agricultural products. Moreover, the People's Bank of China (PBC), the central bank, has pursued a prudent monetary policy. In 2010, PBC raised the reserve requirement ratio six times and the benchmark lending and deposit interest rates twice. In 2011, PBC has raised the reserve requirement ratio three times and the benchmark interest rates twice. Besides, PBC has adopted multiple measures to adjust credit supply in a flexible manner and achieved good results so far. The M2 and RMB loans saw a year-on-year growth of 16.6 percent and 17.9 percent in end-March respectively, lower than the growth recorded either last December or in the same period of last year.

Going forward, China faces tremendous challenges both at home and abroad, including fragile global recovery, increasing inflationary pressures, and a broad range of structural problems. China will continue to maintain the persistency of macroeconomic policies, make the policies more target-specific, flexible, and effective to transform the growth model and balance the need for sustaining strong growth and stabilizing the price level.

The economy of **Hong Kong SAR** saw an overall expansion in 2010. It successfully managed unprecedented challenges of the global recession in 2009 and achieved an annual growth of 6.8 percent. Both the external and internal sectors have experienced strong growth as global economy recovers and local consumption sentiment improves. The unemployment rate gradually fell to 4.0 percent in the fourth quarter in 2010. The consumer price inflation averaged 1.7 percent in 2010. It is expected that in 2011, the growth rate in Hong Kong SAR will reach 4–5 percent, and consumer price index will rise to 4.5 percent.

Due to the good performance of the tourist and service industries, the economy of **Macao SAR** grew 27.7 percent in the second half of 2010, and 26.2 percent in the whole year. The inflation rate rose to 2.8 percent and the unemployment rate remained below 3.0 percent. Despite the decline of goods exports in the second half of 2010, private consumption and the exports of services went up by a large margin and economic activities were broadly brisk. The growth momentum is expected to continue during the first half of 2011.

III. Global Challenges and Responses: The Role of the IMF

Since the outbreak of the current global financial crisis, the financial resources of the Fund have increased substantially, and its functions have somewhat expanded, which fully reflect the importance and expectations attached by the international community to the Fund. The Fund needs to make a comprehensive review of the lessons of the crisis, tailor to the new needs of the global economy and financial reality, reinforce its own reform, and effectively perform its mandates.

Increasing the voice and representation of emerging and developing economies in the Fund's decision-making and management is an important part of the Fund's governance reform, and also the general consensus of its member countries. The adoption of the Fund's 2010 quota and governance reform is a breakthrough. We call on all member countries to accelerate their approval process to make sure that these reforms could take effect prior to next year's Annual Meetings, and urge that the Fund continue to make substantive progress in reforming other parts of its governance, including the merit-based selection of the Management.

The Fund's surveillance framework needs to be reformed on a continued basis in order to enhance its fairness and effectiveness. We welcome the valuable review made by the Fund over its surveillance and a number of reform measures undertaken since the global crisis, which include strengthening surveillance on the financial sector, introducing a multilateral surveillance perspective, launching the trial spillover effects analysis, Early Warning Exercise, Fiscal Monitor, and other new forms of surveillance. Nevertheless, to perform urgently needed public function, the fairness and effectiveness of the Fund's surveillance should be enhanced to a higher level. In this respect, continued improvement of the Fund's governance will provide a basis to ensure surveillance fairness. The Triennial Surveillance Review and the 2007 Decision Review has provided a good opportunity for the Fund to improve the effectiveness of its surveillance. Specifically, it is necessary for the Fund to have a comprehensive assessment of the key risks to the global financial and monetary stability, reprioritize surveillance attention, and update surveillance framework to cover fiscal, monetary, exchange rate, and macroprudential policies, as well as structural policies such as capital flow management and labor market policy, and provide an institutional foundation for balanced and comprehensive surveillance exercise, as well as timely monitoring and early warning of the systemic risks and spillover effects. The current major global challenges are fiscal consolidation and banking sector reform and restructuring in developed economies, excessive volatility in cross-border capital flows and exchange rates of major currencies, and monetary policy coordination of the major reserve currency-issuing economies. The Fund should focus on these risks as its surveillance priorities, intensify surveillance, put forward relevant policy recommendations, and promote substantive progress in these areas.

The international community is having a lively discussion on the IMS reform. The common view is the current IMS has drawbacks and needs reform. However, recognizing the long-term nature and complexity of the reform, it is necessary to adopt a long-term perspective, proceed with the current circumstances, and promote the reform in a positive and steady manner towards establishing a scientific, rational, stable, and orderly IMS. As one of the core institutions of the IMS, the Fund should play a key role in pushing forward and implementing such reforms. In the short run, the Fund should, in response to the needs of its members, actively undertake studies on such challenging topics as management of cross-border capital flows and global liquidity, and make relevant recommendations. In the long run, the Fund would need to give sufficient thought on improving the framework and principles of the IMS. It is worthwhile to explore the diversification of reserve currencies in general. It is encouraging that the Fund has made numerous studies on the above-mentioned reforms, especially on the currency basket of the SDR and the extension of the role of the SDR, and has offered a number of constructive recommendations.

Since 2010, the Fund, in order to meet the needs of its members for responding to the crisis, has actively reformed its lending facilities, improving the Flexible Credit Line (FCL) and creating a new Precautionary Credit Line (PCL). Overall, the Fund's new framework of lending instruments has become much relaxed in terms of access, conditionality, and approval process, and more attractive to the members. It has played a positive role in containing the crisis and maintaining global stability, while the safety of the Fund's financial resources should be guaranteed. The Fund should review its lending facilities, appraise their utility and potential risks, and make prompt adjustments, with the aim of continuing to improve the effectiveness and safety of the lending facilities, providing a solid base for establishing a global financial safety net.