International Monetary and Financial Committee

Twenty-Ninth Meeting
April 12, 2014

Statement by Yi Gang,
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On behalf of People's Republic of China

Statement by Deputy Governor Yi Gang
to the Twenty-Ninth Meeting of the International Monetary and Financial Committee
Washington, D.C., April 12, 2014

I. The global economy and financial markets

Notwithstanding signs of improvement, the global economy remains fraught with challenges. Recovery remains uneven and fragile among advanced economies, while emerging market economies continue to be the main driver of global growth, although tightened external financial conditions are posing headwinds to some emerging market economies. Thus, there is no room for complacency, and comprehensive policy efforts remain needed to address vulnerabilities, pursue the reform agenda, and promote jobs and growth.

In advanced economies, more has to be done to safeguard a sustained recovery. In the U.S., the normalization of monetary policy must be carefully calibrated and clearly communicated, with due regard to the spillovers to the global economy. Side effects from the accommodative monetary policy must be tackled appropriately, while a credible medium-term fiscal consolidation plan remains warranted. In Japan, more structural reform initiatives are needed, and concrete actions have to be taken to safeguard fiscal sustainability. In the euro area, the progress on completing the banking union must continue, and bank balance sheet repair remains urgent; meanwhile, fiscal consolidation must proceed at a measured pace, and structural reform remains key to spur growth and revive the labor market.

In emerging market economies, economic fundamentals remain generally solid and comprehensive policy efforts have been made in correcting pockets of vulnerability. Looking forward, policymakers must stay the course in rebuilding policy buffers and promoting structural reform, in order to safeguard solid economic prospects and reduce the susceptibility of these economies to renewed bouts of financial market volatility.

To achieve a strong, sustainable, and balanced growth in the global economy, strengthened international policy cooperation and coordination would also be necessary. In particular, policy actions must be clearly communicated and in a timely manner, the effectiveness of global financial safety nets must be ensured, and international regulatory reform must be implemented.

II. The Chinese economy and policies

The Chinese economy continued to grow at a stable pace, with the full-year real GDP growth rate registering 7.7 percent in 2013, the same as in the previous year. In 2013, exports increased by 7.9 percent, while retail sales and fixed asset investment grew by 13.1 percent and 19.6 percent, respectively. The official growth projection for 2014 is around 7.5 percent.

Inflationary pressure remained subdued, with the CPI increasing by 2.6 percent in 2013, lower than the official projection of 3.5 percent. Meanwhile, producer price inflation continued to be negative, registering -1.9 percent in 2013. The Chinese authorities are vigilant to the price pressures stemming from agricultural products, services, and rentals, and will continue to guide inflation expectations so as to stabilize CPI in 2014 at a rate around 3.5 percent.

The Chinese economy continued to make notable progress on structural rebalancing. On the back of robust growth in the service sector over the years, the size of the tertiary industry was larger than that of the secondary industry in 2013. Meanwhile, labor income growth remains vibrant, with growth in per capita disposable income of urban household, per capita net income of rural household, and average monthly income of migrant workers all outpacing that of per capita GDP in 2013. Against such backdrop, the current account surplus narrowed to 2.1 percent of GDP in 2013 from 2.3 percent of GDP in 2012.

The Chinese authorities will maintain the stability and continuity of macroeconomic policies in order to preserve stable growth. On monetary policy, the Chinese authorities will maintain a prudent policy stance with an appropriate level of liquidity and reasonable growths in money, credit, and social financing, and the target for M2 growth is 13 percent in 2014. In addition, policy measures will be implemented in a more forward-looking, targeted, and coordinated manner. On fiscal policy, the policy stance will remain proactive, with the budget deficit setting at RMB 1.35 trillion (about 2.1 percent of GDP) in 2014. While local government debt is manageable, the Chinese authorities will continue to ensure that local government financing will be tightly regulated, transparent, and sustainable. On financial policy, the Chinese authorities will continue to promote a sound development in the financial market and enhance the role of direct financing so as to support economic and social objectives. More efforts will be made on guarding against liquidity risks, credit risks, and nonbank financial risks, particularly on limiting moral hazard and implicit guarantee. On social and development policies, social welfare and environmental protection will be strengthened, while innovation will be facilitated.

At the same time, the Chinese authorities will continue to adjust the economic structure and deepen reform, and a comprehensive reform package had been announced with the aim of allowing the market to play a decisive role in resource allocation in the economy. In particular, the RMB exchange rate reform will continue, following the recent widening in the daily trading band, and the pace of capital account convertibility will accelerate. The market-based interest rate reform will proceed alongside, with deposit rates liberalized in the medium term, and a deposit insurance scheme will be set up in due course. The role of market forces in pricing utilities and resources will be enhanced, and the management and governance of the state-owned sector will be improved, with property rights being protected. Urbanization will be pursued alongside reforms of the fiscal and hukou system in an environmentally and financially sustainable manner, and a further opening-up of the economy will be facilitated through measures including the establishment of free-trade zones. While reform may drag growth in the short term, it can lead to more sustainable and balanced growth in the long term, consequently benefiting the global economy.

Hong Kong's overall economic performance improved moderately in 2013, with real GDP expanding by 2.9 percent. Domestic demand continued to hold firm and provided a buffer against external headwinds. The labor market remained in a state of full employment, with unemployment staying low at 3.3 percent. Inflation was largely contained at 4.0 percent, as lower imported inflation helped offset the domestic price pressures. Hong Kong's economy is projected to grow by 3–4 percent in 2014. Meanwhile, the easing trend of inflation will continue and the underlying composite CPI is forecast to increase to 3.7 percent.

Macao SAR's economic growth reached 12.9 percent in the second half of 2013. Private consumption, investment, and merchandise exports continued to expand, while the growth of service exports accelerated further. For all of 2013, the economy grew by 11.9 percent. The unemployment rate stayed at below 2.0 percent, while the inflation rate dropped to 5.5 percent from 6.1 percent in the previous year. As economic activities remain vibrant, the gross domestic product is expected to sustain positive growth in the year 2014.

III. The role of the IMF

A strong and effective IMF is needed to help the global monetary system sail through market turbulences. We deeply regret that the 2010 quota and governance reform has not yet become effective and that the 15^{th} General Review of Quotas was not completed by January 2014 as scheduled. Failure to implement the 2010 reforms will hamper the Fund's effectiveness, legitimacy, and credibility, as well as its capacity to respond to crisis. We remain committed to supporting the nature of the IMF as a quota-based institution and its role as an important contributor to the global financial safety net. We support the IMFC Chair's call on the United States to approve both the 14^{th} Review and the Board Reform Amendment as early as possible. We reaffirm our support for the completion of the 15^{th} General Review of Quota by Janaury 2015, as soon as the 2010 reforms are implemented.

The IMF needs to continue to strengthen its surveillance in the face of the changing global economic landscape. We welcome staff's efforts on monitoring global liquidity, given that any abrupt change in global liquidity conditions could have far-reaching implications on external financing and global financial stability. With the Integrated Surveillance Decision being effective for more than a year, and with the near completion of the first round of mandatory FSAPs, we look forward to the upcoming Triennial Surveillance Review and FSAP Review, which could help identify room to further strengthen the Fund's surveillance.

The IMF also needs to refine its lending framework in light of countries' experiences. In this regard, the recent review of some key lending instruments of the Fund (FCL/PLL/RFI) is helpful to ensure that the Fund stays relevant in the global financial safety net, while the introduction of a new review-based monetary conditionality framework should be able to help members with changing monetary policy frameworks establish a credible policy anchor. Given the success of the Fund's financing in helping some members restore macroeconomic stability, it is also important for the Fund to draw lessons from these experiences to help improve future designs of the Fund's financing programs.

Efforts to support low-income countries (LICs) should be maintained under any circumstance. We welcome staff's recent analysis on sustaining long-term growths in LICs, which rightly point out the role of diversification and structural transformation in promoting economic development. Given the importance of financing to infrastructure investment and long-term economic development in these economies, we also welcome the work on refining the Fund's debt limit policy toward LICs, which, through focusing on the aggregative borrowing plan rather than nonconcessional borrowing alone, could provide LICs with more flexibility to borrow. As a sound financial system would be indispensible to the promotion of long-term growth of LICs, it is important for the Fund to make resources available for conducting FSAPs for these economies.