



International Monetary and Financial Committee

Thirty-Third Meeting
April 16, 2016

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

On behalf of People's Republic of China

**Statement by the Honorable Zhou Xiaochuan
Governor of the IMF for China to the
Thirty-Third Meeting of the International Monetary and Financial Committee
Washington, D.C., April 16, 2016**

Global economic and financial development

The global economy hasn't seen much substantive improvement since last October, as growth has remained sluggish and financial risks persist with volatile capital flows and fragile market confidence. In advanced economies, where crisis legacies are still lingering, the recovery momentum is not yet solidly based. Asynchronous monetary policies and negative rates in some countries are adding to the uncertainties in the global financial market. While continuing to be the main driver for global growth, emerging market and developing countries have suffered from tightening global financing conditions and slumps in commodity prices, and many of them are facing downward pressures. More broadly, continued moderation of global trade and investment growth, the aging population, declining productivity, and larger income inequality pose common challenges for all. The refugee issues and geopolitical risks have further shadowed the growth prospects of countries involved.

Countries need to take forceful and comprehensive measures to boost global recovery and strengthen resilience. Advanced economies need to consolidate recovery momentum through an appropriate mix of fiscal, monetary, and structural policies. More specifically, overreliance on accommodative monetary policies should be avoided, while efforts should be stepped up to implement structural reforms, including boosting investment, increasing labor market flexibility, and liberalizing the product market, so as to raise growth potential. Moreover, the financial sector should be made more resilient, in particular, through stronger supervision and oversight of nonbank sectors. **Emerging market economies** need to continue structural adjustments and transformation of their growth models, improve macroeconomic policy, and put in place macroprudential frameworks to address reversals in capital flows and financial risks. Furthermore, structural reforms should be implemented more forcefully to optimize public investment, improve the business environment, and increase labor productivity to promote growth in the long run.

In the context of deepening economic and financial globalization, it is imperative to step up multilateral cooperation. To promote strong, sustainable, and balanced global growth, it is necessary for all members to strengthen policy coordination on macroeconomic issues, and refrain from adopting various forms of protectionism in trade and investment. At the same time, financial sector reforms need to be accelerated. The global financial safety net should be strengthened to improve stability and resilience of the international

monetary system. Furthermore, enhanced efforts are required to address challenges—including climate change and income inequality—and to channel private capital to green investments.

Economic and financial development in China

Since the beginning of 2016, growth in China has remained firm, with key indicators showing signs of improvement. GDP grew by 6.7 percent in the first quarter year-on-year, with retail sales of consumer goods posting a stable year-on-year growth of 10.7 percent. In March, the PMIs registered 50.2 percent and 53.1 percent in the manufacturing and service sectors, respectively, up 1.2 and 0.9 percentage points, marking a return to expansion. In March, imports and exports combined increased by 8.6 percent year-on-year, with exports up 18.7 percent. Although imports declined by a small margin of 1.7 percent, China's imports of copper, coal, crude oil, and other commodities rose considerably in volume. M2 grew by 13 percent year-on-year in the first three months, reflecting strong credit demand; CPI growth was 2.3 percent in March, indicating continued upward trend.

China, in a “New Norm” of medium-to-high growth, continues to make notable contribution to global growth. China's real GDP growth rate was 6.9 percent in 2015, within the target range and fairly high globally, contributing 25 percent to global growth. **While the economy is slowing down, its structure and quality have improved.** In 2015, the structure of demand improved further, with final consumption contributing 66.4 percent to GDP growth, 15.4 percentage points higher than in the previous year. In the first quarter of 2016, value added of the tertiary industry as a share of GDP was 56.9 percent, an increase of 2.0 percentage points year-on-year and 19.4 percentage points higher than that of the secondary industry. Meanwhile, progress has been made in energy conservation, with energy consumption per unit of GDP down by 5.3 percent year-on-year in the first quarter of 2016. A total of 3.18 million new urban jobs were created in the first quarter of 2016.

The growth drivers have remained strong and sound fundamentals will continue to support long-term growth. There is a strong basis to turn massive savings into investment demand, and the progress in industrialization and urbanization will generate fresh demand for investment and consumption. As a middle-income country, China's per capita income has a large potential to continue growing. **Furthermore,** the government has adopted a series of measures, such as market opening-up, mass entrepreneurship and innovation, high-technology industry development, structural adjustment, as well as reform and development of the capital market and the banking system, all of which will inject fresh vitality to the economy. We expect the cumulative effects of policies aimed to maintain growth, adjust structure, and deepen reforms will sustain a medium-to-high

growth and ensure a contribution to the global growth compatible with the size of the Chinese economy.

The continuity and consistency of macroeconomic policies will be maintained. China will continue to implement the prudent **monetary policy** in a flexible and appropriate way, to keep adequate liquidity and maintain proper growth of credit and aggregate financing. The growth of both M2 and total social financing are expected to be 13 percent in 2016. There still are policy space and various policy instruments available to manage potential downside risks. **Fiscal policy** will be more proactive, which is expected to raise the deficit ratio from 2.3 percent in 2015 to 3 percent in 2016 to support tax relief and fee reduction. In 2016, value-added tax will replace business tax across-the-board and the deductibility of input VAT will be enhanced substantially to alleviate the tax burden on enterprises. The tax relief is expected to reach 600 billion yuan this year.

On China's exchange rate policy, recent movements in the RMB exchange rate reflected well the managed floating exchange rate regime based on market supply and demand and with reference to a currency basket. The RMB has remained basically stable against a basket. At present, China still runs a large current account surplus, inflation remains at a low level, growth remains relatively strong, and international competitiveness stays strong. There is no basis for persistent RMB depreciation. China will continue to pursue market-based exchange rate reform, and maintain the RMB exchange rate basically stable at a reasonable and equilibrium level.

The Chinese government will also strengthen structural reforms, particularly on the supply side, to strike a better balance among economic growth, structural adjustment, and risk prevention, with a view of achieving sustainable growth. China will implement an innovation-driven development strategy to boost new growth drivers and upgrade traditional industries. Meanwhile, special attention will be given to overcapacity and cost reduction to improve efficiency, and the supply of goods and services. Reform of state-owned enterprises will be advanced to give additional boost to the private sector. The priority of overcapacity reduction is in the coal and steel sectors, for which specific goals and clear timetables have been formulated. Moreover, with progress in debt swaps and the implementation of the new budget law, public debt management has become more transparent, market-oriented, and rules-based. At the current level, China's public debt-to-GDP ratio remains relatively low; commercial banks generally have adequate capital and sufficient provisioning, and their profits continue to grow, providing ample buffer to absorb losses; the financial regulatory coordination and the macroprudential framework are being enhanced. We have the capacity to identify and address potential risks and preserve economic and financial stability.

The *Thirteenth Five-Year Plan* adopted by the NPC and CPPCC sessions this year emphasizes an “innovative, coordinated, green, open, and shared development.” It set the

goals of doubling GDP and per capita income of urban and rural residents by 2020 from 2010, and an annual growth rate of over 6.5 percent during the period. Meanwhile, measures will be taken to speed up the upgrading of industrial structure, launch a group of sizable projects that are technically advanced and will generate major pulling effect, and facilitate a smooth transformation of growth models to realize sustainable development.

Facing grave external circumstances, the Hong Kong SAR registered a modest growth of 2.4 percent in 2015 with unemployment rate remaining at 3.3 percent. Due to the price decline of imported goods and the control of local cost pressure, inflation fell to 2.5 percent. It is estimated that Hong Kong will realize an annual growth of 1-2 percent in 2016. Its inflation pressure will be mild, and the inflation of basic Composite CPI is expected to average 2 percent.

Due to the decline in service exports, the growth of Macao SAR declined 20.3 percent year-on-year in 2015. Yet, unemployment remained under 2 percent and inflation fell to 4.6 percent. It is expected that the economy will continue to adjust throughout 2016, but the slowdown will be substantially ameliorated.

The role of the IMF

As the global economy is facing the common challenges of sluggish growth, elevated risks, and structural adjustment, the IMF—at the center of the international monetary system—needs to further strengthen its capacity to fulfill its mandates and enhance its role.

We expect the IMF to improve governance and have adequate resources, in which the quotas play a key role. We congratulate the Fund on the completion of the Fourteenth General Quota Review, and look forward to the timely completion of the Fifteenth General Quota Review, including a new quota formula. As a quota-based institution, the Fund depends on the adequacy of quotas, which are the permanent source of its resources, whereas borrowed resources could be used as a transitional arrangement before quotas are increased. We expect that the Fifteenth Review will further enhance the representation of dynamic emerging markets and developing economies to better reflect their role in the global economic landscape. We call for the Fund to work expeditiously and all members to keep the reform momentum in the spirit of constructiveness and cooperation, to improve the quota and governance structure of the IMF.

The IMF should continue improving its policy surveillance to facilitate members' economic transformation and enhance their capacity to prevent and manage risks. Economic transformation and restructuring are the common global challenges we all face.

In carrying out its surveillance, the IMF should serve its objective of promoting global growth and financial stability. For this, the IMF should make full use of its expertise of macroeconomic analysis and its global influence in providing members with analyses and recommendations on macroeconomic policies and structural reforms, in order to help them effectively prevent and manage risks, support and encourage them to implement reforms, and send positive signals on their reform progress to the globe. Moreover, the IMF should also pay greater attention to surveillance on the policies and spillover effects of reserve-currency-issuing countries, and promote multilateral policy coordination.

The IMF should continue to advance the reform of the International Monetary System (IMS). We welcome the IMF's recent discussions on strengthening the IMS. The IMS has inherent deficiencies and faces new challenges from globalization, financial innovation, and volatility in capital flows. To reform and enhance the IMS, efforts should be made in a number of areas: better monitoring and management of capital flows; ensuring the adequacy and effectiveness of the Global Financial Safety Net, including enhancing the role of the IMF, improving its lending facilities, and allowing regional financial arrangements to better play a supplementary role; further improving the sovereign debt restructuring mechanism, with better coordination among creditors and debtors, and wider use of the enhanced contractual clauses. The SDR has the potential to resolve the existing deficiencies in the IMS. We can start now to gradually broaden the use of the SDR, including using it as a reporting currency in parallel with the USD and exploring issuance of SDR-denominated assets. Starting from this April, China has released foreign exchange reserve data denominated in the SDR in addition to the USD. We will also explore issuing SDR-denominated bonds in the domestic market. We look forward to the IMF's further analysis on strengthening the role of SDR this year.