



International Monetary and Financial Committee

Thirty-Fifth Meeting
April 22, 2017

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

On behalf of the People's Republic of China

**Statement by Mr. Zhou Xiaochuan
Governor of the People's Bank of China**

I. Global economic development

The global economic recovery has broadly gained momentum since the last Annual Meetings. The advanced economies have witnessed a noticeable pickup in their economic activities, whereas emerging markets and developing countries have seen an overall improvement in their growth prospects. The current recovery may be mainly attributable to cyclical factors, supported by perceived favorable policies in major economies. However, the global economic outlook in the medium term is still unclear, with risks tilted to the downside. Most member countries face common challenges of aging population, declining productivity growth, and rising inequality. In particular, political and policy uncertainties, and the rising anti-globalization and protectionism sentiment against international trade and investment, pose challenges to global growth. In this context, member countries should reinforce the three-pronged efforts on the monetary, fiscal, and structural fronts to maintain the recent recovery momentum and improve growth prospects in the medium term.

Advanced economies need to seek an appropriate mix of monetary and fiscal policies, securing the medium-term fiscal sustainability while creating more fiscal space by improving the spending and revenue structure, hence, to boost growth with effective fiscal support and avoid overburdening monetary policy. Meanwhile, committed efforts should be made to fully implement the structural reforms, focusing on boosting public and private investments, enhancing labor market flexibility, encouraging innovation, and unleashing growth potentials.

Emerging markets and developing economies should maintain the soundness of monetary and fiscal policies, containing risks and vulnerabilities within the macroeconomic and financial system, while diversifying and upgrading the economic structure. They also need to enhance public investment, improve the business climate, raise productivity to strengthen resilience against the volatilities of capital flows and commodity prices, and sustain growth momentum.

All members should continue to advocate multilateral cooperation, strengthen macroeconomic policy coordination, and prevent and address spillover effects. It is especially important to enhance the multilateral system of open and free trade and investment, jointly resist protectionism, and accelerate the liberalization of global

trade and investment. In addition, to meet the global financial stability challenges, all members should continue the coordinated efforts to fully implement the financial sector reform measures, enhance the global financial safety net, and improve the stability and resilience of the international monetary system.

II. Economic and financial developments in China

China's economic growth has stabilized. Its GDP growth in 2016 reached 6.7 percent, contributing 30 percent of the global growth. During the year, 13.14 million new jobs were created in urban areas, exceeding previous expectations. Prices remained stable, with CPI rising by 2 percent. The strong momentum has been maintained in the first quarter of 2017. The GDP grew by 6.9 percent year-on-year and inflation by 1.4 percent. As the growth of investment and trade stabilized and recovered, consumption grew steadily, and employment remained broadly stable, the expected 6.5 percent growth for this year is within reach.

The structure and quality of growth continues to improve. In the first quarter of 2017, the value-added of the service industry amounted to 56.5 percent of GDP, 17.8 percentage points higher than that of the secondary industry. Final consumption contributed 77.2 percent of GDP growth. Energy consumption per unit of GDP fell by 3.8 percent. The structural reforms on the supply side have seen desired effects, featuring rapid development of new technologies that create numerous new job opportunities. The emerging internet industry and its cooperation with traditional industries have made production more effective and efficient.

The corporate and the financial sectors are broadly resilient, with risks well under control. The year 2016 saw substantial progress in removing excessive capacities, with a total capacity cut of 65 million tons of steel and 290 million tons of coal, exceeding the annual targets. Further progress was made in the first quarter, as the output of coal declined by 0.3 percent year-on-year. The profitability of industrial enterprises has improved significantly, with the year-on-year growth turning from a negative 2.3 percent in 2015 to a positive 8.5 percent in 2016, and reaching a remarkable 31.5 percent in the first two months of this year. The debt level of industrial enterprises has declined, with debt-to-asset ratio falling to 56.2 percent in February this year. The banking sector's capital and provisions remain adequate, with nonperforming loans staying low. China is fully confident in preventing and eliminating systemic risks.

Going forward, the Chinese government will continue to maintain the soundness and consistency of macroeconomic policies. Monetary policy will remain prudent and neutral, striking a better balance between stabilizing growth and the task of deleveraging, preventing asset bubbles, and containing the accumulation of systemic risks. A full range of monetary policy tools will continue to be applied to keep liquidity broadly stable, guide market interest rates in a reasonable manner, improve transmission channels, and help direct more financial resources to the real economy. The macroprudential policy framework will be further improved, and macroprudential management will be enhanced to address potential systematic risks. Fiscal policy will be more active and effective, with increased support to structural reforms on the supply side, hence, to ensure growth within a reasonable range.

The Chinese government will continue to push forward reforms on all fronts, with a focus on structural reforms on the supply side and an aim toward higher quality and growth efficiency. Efforts will continue to be made to address excess capacity in the coal, steel, and other industries, with a forecast of another capacity cut of 50 million tons of steel and over 150 million tons of coal. Efforts will also be made to promote technological innovations, accelerate new business development, transform and upgrade traditional industries, encourage mass entrepreneurship and innovation, facilitate a shift from old to new growth momentum, and promote economic restructuring and upgrading. In addition, China will continue to implement reforms in key areas, such as the financial sector, the fiscal and taxation system, and the state-owned enterprises, to improve growth potentials in the medium and long term.

Hong Kong SAR registered a mild growth of 1.9 percent year-on-year in 2016. The labor market was stable, with an unemployment rate of 3.3 percent. Inflation remained moderate. The underlying consumer prices trended lower to 2.3 percent in 2016, the fifth consecutive year of easing in inflation. Looking ahead, supported by strong domestic demand and improved external environment, the economy is expected to grow by 2 to 3 percent in 2017, and inflation is projected to average 2.0 percent for the year.

The economy of Macao SAR contracted by 9.7 percent year-on-year in the first half of 2016, followed by a rebound of 5.7 percent in the second half, underpinned by a recovery in the services export. The economy in 2016 as a whole shrank by 2.1 percent year-on-year, which represented a significant improvement from the 21.5 percent decline in 2015. The macroeconomic environment remained stable, and the tourism sector began to recover. The unemployment rate stood below 2.0 percent, and inflation fell to 2.4 percent. Macao's fiscal position remained strong, with the

government continuing to record a surplus. It is expected that the economy will return to positive growth in 2017.

III. IMF reforms

The IMF should seek to mitigate the downside risks to global growth by further refining its surveillance and policy advice, advocating multilateralism and globalization, and facilitating international policy coordination. It should conduct comprehensive and integrated surveillance over members' macroeconomic and financial systems, providing tailored policy advice to assist members' efforts to achieve their policy objectives. It also has the responsibility to examine policy uncertainties in major economies and potential spillovers, monitor volatile capital flows and macrofinancial risks, and advise on solutions to improve macroprudential management and guard against risks. The IMF should stick to its basic principle of globalization, and promote global coordination of macroeconomic policies under a cooperative and rules-based framework, with an aim of achieving broad recovery in global trade and investment. We support the IMF's efforts to strengthen its study on common challenges that undermine members' growth potentials, including weak productivity growth, aging population, and rising inequality, in support of members' efforts to improve their medium-term growth prospects.

The IMF should continue to advance the quota and governance reform to ensure that the institution remains quota-based and adequately resourced. Borrowed resources are temporary in nature, and the quota reform remains critical in ensuring the adequacy of resources. The 2010 quota and governance reform has not significantly closed the gaps between the actual and calculated quotas, and between members' calculated quota shares and their actual weights in the global economy. We call for continued reform momentum and cooperation of all members in completing the 15th General Review of Quotas within the agreed timeline, narrowing the gap in quotas and improving the quota structure to further enhance the representativeness of dynamic emerging markets and developing economies.

The IMF should continue to promote the reform of the international monetary system. Globalization calls louder for a more stable international monetary system. The IMF's reform of the SDR basket has laid a good foundation for reserve currency diversification, contributing to the stability of the international monetary system. We support the IMF's work on broadening the role of the SDR, and expect more targeted and sustained efforts from the perspective of addressing the inherent weaknesses in the existing international monetary system. We support the IMF further improving its

lending toolkits and strengthening its cooperation with regional financial arrangements to jointly enhance the global financial safety net with the IMF at the center. We call for all relevant parties to continue improving the sovereign debt restructuring framework, strengthening coordination between debtors and creditors, and promoting the inclusion of enhanced contractual provisions.