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Statement by the Hon. **YI GANG**,
Alternate Governor of the Fund for the **PEOPLE'S REPUBLIC OF CHINA**

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1. State of the Global Economy

Despite the various efforts to contain the crisis and to mitigate its impact on global growth and financial stability, the global recovery remains fragile and financial stability is far from being assured. Downside risks to the global recovery remain elevated.

At present, the Euro Area crisis has yet to show convincing signs of improvement, while recovery in the United States, Japan, and some other major advanced economies remains fragile. The United States and Japan have thus far failed to introduce clear and credible plans for medium-term fiscal consolidation. Growth momentum in major emerging market economies has moderated recently, due in part to a more difficult external environment, posing challenges to macroeconomic management. Given the current situation, strong, sustainable, and balanced growth should remain the primary goal of the global community. Major advanced economies need to take further efforts to stabilize their economy and support their recovery, and to contain the negative spillover effects on other economies. At the same time, countries should enhance policy coordination, guard against protectionist pressures, and promote global growth.

The continued implementation of reforms will be key to driving economic growth and maintaining financial stability. Efforts should also continue to reform the international financial system, improve international economic governance, and establish a fair, inclusive, and orderly international financial system.

2. State of the Chinese Economy

Since 2011, in the face of the volatile external environment, the Chinese government has put greater emphasis on stable growth. It has adjusted certain macroeconomic measures in a targeted manner to maintain stable economic growth, for instance, by lowering the reserve requirement ratio twice this year, reducing the interest rates twice and allowing banks greater flexibility in setting interest rates, intensifying open market operations and structural tax reduction, and improving public expenditure composition in favor of social sectors. In the first half of this year, China recorded real GDP growth of 7.8 percent, exceeding the 7.5 percent projection at the beginning of the year. During the first eight months of 2012, the value-added of large-scale industrial entities grew 8.9 percent year-on-year in real terms, while the total retail sales of consumer goods were up

by 14.1 percent year-on-year in nominal terms, and investment in fixed assets rose by 20.2 percent year-on-year in nominal terms. The economy continued to move in the direction as envisaged under macroeconomic management, sustaining growth at a relatively fast pace.

The trend of excessive price increases has been checked. In the first six months of 2012, the consumer price index (CPI) rose by 3.3 percent, down 2.1 percentage points compared with the same period in 2011. The rate declined further to 1.8 percent and 2 percent in July and August respectively, although higher commodity prices and volatility continue to pose challenges to price stability.

Structural adjustments have helped further narrow the external balance. During the first half of 2012, final consumption expenditure contributed 57.7 percent to GDP growth, while total capital formation contributed 49.4 percent, and net exports a negative 7.1 percent. The current account surplus has declined considerably, from 10.1 percent of GDP in 2007 and 2.8 percent to 2.1 percent in the first half of 2012. This has been primarily driven by structural factors, including the substantial appreciation of the real exchange rate, significant expansion of the social safety net, reforms with regard to factor prices, and more stringent environmental standards.

In the face of uncertainty in the global recovery, China will continue to implement proactive fiscal policy and prudent monetary policy, with preemptive and flexible policy adjustment necessitated by changing conditions and accelerating the structural transformation of the economy. The Chinese economy is expected to maintain steady growth in the second half of the year and to continue to sustain its relatively strong growth momentum in the medium and long term.

3. Future Development and Reform of the International Monetary Fund and the World Bank

To accelerate the establishment of a new international financial system that is fair, just, inclusive, and orderly, it is important to continue with the reform efforts at the IMF and the World Bank. Since the beginning of this year, the IMF has made important progress in quota and governance reform, in crisis management, and in the enhancement of its surveillance framework. In particular, its Board of Executive Directors has adopted an Integrated Surveillance Decision, making progress in enhancing the focus and traction of the IMF's surveillance work. It has also played an important role in maintaining global economic and financial stability with enhanced financial resources. In addition, the IMF has started allocating SDR 700 million in excess profits from gold sales and made financial

contributions to the Poverty Reduction and Growth Trust, thereby contributing to global poverty reduction and development.

We congratulate Dr. Kim on his assumption of the 12th presidency of the World Bank. Since the outbreak of the international financial crisis, the World Bank has actively mobilized various resources to help the developing countries meet the challenge. The Bank's efforts include the completion of general capital increase, special capital increase, and voting power reform, and the replenishments of IDA 15 and 16, offering a total financial support of over US\$250 billion to the developing countries. Moreover, the Bank has also achieved positive progress in internal governance reform, information disclosure, innovative loan instruments, gender equality, anti-corruption, and improvement of assistance efficiency.

To effectively improve the capacity of the IMF and the World Bank to pursue their mandates, we propose the following with regard to their future development and reform process.

First, to safeguard the IMF's legitimacy and effectiveness, we call on member countries to conclude the 2010 quota and governance reforms by completing the domestic approval process by the agreed deadline. We also call on all parties to complete the review of the quota formula by January 2013 in the spirit of cooperation. The new quota formula should be simple, transparent, well accepted by IMFC members, and protect the voice and representation of the poorest members. It should also lead to a shift in voting shares toward dynamic emerging market and developing countries. In our view, the variable "GDP" best serves the above-indicated purposes and should receive central attention in the quota formula review.

Second, we welcome the adoption of the Integrated Surveillance Decision by the IMF, as a step in the positive direction to enhance the effectiveness of Fund surveillance through better integration of bilateral and multilateral surveillance, together with the broadened focus on macroeconomic policies. The IMF needs continued efforts to safeguard global economic and financial stability and to enhance and improve its surveillance for that purpose. Surveillance of macroeconomic, financial sector policies, and capital flow volatilities originating from major reserve currency-issuing economies should be accorded with greater priority. We note that an External Sector Report (ESR) and its related work on External Balance Assessment (EBA) have been conducted on a pilot basis by the IMF. However, the underlying conceptual framework and methodology in ESR and EBA are subject to a great deal of uncertainty. We would welcome further

efforts by the IMF to engage with its members and the public in efforts to enhance its surveillance of the external sector.

Third, it is important that the IMF has adequate resources to perform its duty of safeguarding the stability of the international monetary system. We hope that the resources of the IMF could be replenished on the basis of its quota system, and that its lending facility could be further improved in order to meet the needs of member countries weathering the crisis, especially countries that are affected by spillovers. China is willing to play its part in the reform of the IMF and in the maintenance of global economic and financial stability, in cooperation with other countries.

Fourth, the World Bank should always take poverty reduction and development as its core mandate, and the development of the developing countries as an important way for achieving robust, balanced, and sustained global growth. The World Bank should enhance its role of resource transfer to the developing countries, help them improve development environment, create development conditions, and help them improve their self-development capacity. Besides, the Bank needs to constantly enrich and innovate global development concept and practice, and provide more resources for South-South cooperation as well as regional cooperation. China is willing to support all it can in the Bank's efforts to promote poverty reduction and development in low-income countries and facilitate common global development.

Fifth, the World Bank should conduct further its voting power reform and promote economic globalization toward a balanced, inclusive, and win-win development. As a part and parcel of global economic governance, the World Bank should be dedicated to creating an international environment friendly to the developing countries, promoting a more fair and reasonable international economic order, and fully reflect the core concerns of the broad developing countries when developing international economic rules.

Thank you!