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IMFC Statement by Zhou Xiaochuan
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On behalf of the People's Republic of China

Statement by the Honorable Zhou Xiaochuan
Governor of the IMF for China to the
Thirty-Fourth Meeting of the International Monetary and Financial Committee
Washington, D.C., October 8, 2016

I. Global Economy

Since the 2016 Spring Meetings, global economic growth remained sluggish, with elevated downside risks. Moreover, the global economy is still confronted with such common challenges as the slowdown in trade and investment, aging population, decreasing productivity, and income inequality. The refugee issues in Europe and heightened political risks have further weighed on the global outlook. In response to the global risks, all parties should adopt comprehensive and strong measures to promote strong, sustainable, balanced, and inclusive global growth.

The impact of Brexit, the nonperforming loans in the European banking sector, and the divergence of monetary policies have increased the uncertainty of advanced economies' growth outlook. Against this backdrop, advanced economies need to introduce an appropriate monetary and fiscal policy mix and use their fiscal policy space, while making sure that medium-term debt is on a sustainable path, to effectively boost demand. At the same time, structural reforms should be implemented with a focus on encouraging both the public and private sectors to make investments, increasing labor market flexibility, and promoting innovation to raise the growth potential.

The emerging markets and developing economies (EMDEs) have shown improvement, and continue to be the main driving force of global growth. However, some emerging markets are still confronted with challenges such as weak external demand, increased volatility of capital flows, infrastructure bottlenecks, and financial vulnerabilities. To achieve sustained and rapid economic growth, EMDEs need to adopt prudent monetary and fiscal policies, with intensified structural reform efforts toward successful adjustments and transitions through eliminating financial vulnerabilities, optimizing public investments, improving business climate, and increasing labor productivity.

There is an urgent need for global cooperation in view of the continued slowdown of global trade and investment, as well as the trend of anti-globalization and protectionism. All parties should continue to strengthen coordination of macroeconomic policies, avoid all forms of trade and investment protectionism, and promote free trade and global investment. Furthermore, in light of the challenges facing global stability, all member countries should make joint efforts in implementing financial sector reforms, strengthening the global financial safety net, and increasing the stability and resilience of the international monetary system.

II. Chinese Economy

The Chinese economy grew at 6.7 percent in the first half of 2016, contributing around 25 percent to the global growth. In the first eight months of this year, investment in fixed assets increased by 8.1 percent, the total retail sales of consumer goods by 10.3 percent, and the profitability of industrial enterprises by 8.4 percent. In August 2016, the manufacturing PMI increased to 50.4 percent, reflecting the recovery of business activities. It is expected that the Chinese economy will achieve this year's growth target of 6.5-7 percent.

Price indexes basically remained stable. In the first eight months of this year, the CPI increased by 2.0 percent year-on-year, and the year-on-year decline of the PPI continued to moderate. Although the month-on-month CPI moved downward recently, it is likely to remain stable for the whole year.

The structure and quality of growth have improved steadily. For the first half of 2016, final consumption expenditure contributed to 73.4 percent of GDP growth, 13.2 percentage points higher than the same period last year. The added value of the tertiary industry accounted for 54.1 percent of GDP, 1.8 percentage points higher than the same period last year. Meanwhile, energy consumption per unit of GDP declined by 5.2 percent.

Going forward, the Chinese government will continue to maintain stability and consistency of its macroeconomic policies and to implement prudent monetary policy, creating an enabling monetary and financial environment for structural reforms while managing aggregate demand. China will use various policy instruments to keep banking liquidity at an adequate level and guide the credit and the total social financing to grow at a steady and moderate pace. Fiscal policy will continue to be proactive to support a medium-to-high growth.

China will also carry out reforms on all fronts to enhance the quality and efficiency of its growth. The interest rate liberalization and the reform of RMB exchange rate regime will be further promoted. The capital account convertibility will be improved in an orderly way. We will further enhance the macro-prudential policy framework and improve macro-prudential management. Efforts will be made to promote supply-side structural reforms with a focus on reducing excess capacity in coal, steel, and other industries, lowering corporate leverage, and dealing with piling debt through market-based approaches, such as debt restructuring, debt-to-equity swaps, securitization, and liquidation. This will help reduce vulnerabilities and mitigate risks, and the medium- and long-term growth potential will be lifted.

Because of a recovery in exports, the Hong Kong economy registered a moderate growth rate of 1.7 percent in the second quarter of 2016, higher than the growth of 0.8 percent in the first quarter. The labor market was relatively stable, as the unemployment rate remained at a low level of 3.4 percent. Inflation continued to be moderate. The basic CPI inflation was 2.8 percent in the first quarter, and fell to 2.3 percent in the second quarter. It is expected that the Hong Kong economy will grow at 1-2 percent for the whole year of 2016 and inflation will be around 2.2 percent.

The year-on-year economic growth of Macao SAR declined by 10.3 percent in the first half of 2016.The decline was much smaller than last year's negative growth of 20.3 percent. During this period, the macroeconomic environment continued to be sound, with an improved outlook of the tourism industry, a low unemployment rate below 2.0 percent, and the decline of inflation to 3.0 percent. The fiscal balance remained strong, with a 24.5 percent year-on-year improvement. It is expected that in 2016, the economic growth of Macao SAR will continue to decline, but at a visibly slower pace.

III. Reforms at the IMF

The IMF should continue its quota and governance reforms and ensure that the IMF is strong, quota-based, and well-resourced. Against the current backdrop of weak global growth, elevated financial market risks, increased capital flow volatilities, and substantial uncertainties, the IMF needs to maintain adequate resources so as to mitigate risks and stabilize market confidence in a timely manner. We support maintaining access to bilateral and multilateral borrowing agreements between members and the IMF and call for broad participation of the IMF membership, including through new agreements. However, the use of borrowed resources should be temporary, and it is more important to press ahead with the quota reform so as to increase the IMF's resources in a fundamental way. The implementation of the 2010 Quota and Governance Reform is welcome. However, there are still significant gaps between the actual and the calculated quotas, as well as between the calculated quotas and the actual global landscape. We therefore call on all parties to maintain the reform momentum and demonstrate a cooperative spirit to ensure the completion of the 15th General Quota Review according to the timetable by the IMF, which will result in further progress in increasing the representativeness of dynamic EMDEs.

The IMF should continue improving its surveillance capability. It should enhance its research and put forward more suggestions on key and common challenges faced by member countries, and provide early warning against risks. Economic transition and structural adjustment are common global challenges. We encourage the IMF to use its expertise on macroeconomic analysis to provide members with technical assistance on the direction of their macroeconomic policies and structural reforms. In doing this, the IMF should enhance its analysis and offer more recommendations on how to handle critical issues, including assessing and making the best use of fiscal policy space, effectively increasing corporate sector investment, dealing with key challenges faced by IMF members such as overcapacity, debt overhang, and balance sheet mismatches, while addressing global issues such as the aging population and the slowed productivity growth. The IMF should keep closer attention to the possible resource allocation distortions and financial risks caused by a persistently low interest rate environment and accommodative financing conditions, and help members identify risks and take timely actions in this regard. We welcome the IMF's research efforts on macro-prudential regulation and expect the IMF to provide members with feasible operational advice and promote international cooperation in this area.

The IMF should press ahead with international monetary system reforms. There are still deficiencies in the international monetary system, while financial globalization, financial innovations, and volatile capital flows bringing about new challenges. We welcome the IMF's timely efforts to derive lessons from national practices and to integrate these practices into its researches on capital flow management and macro-prudential policies so as to provide its members with advice, helping them mitigate macroeconomic and financial risks. We support further strengthening the Global Financial Safety Net with the IMF at its center, improving the effectiveness of the IMF's lending tools and enhancing cooperation between the IMF and regional financial safety nets. We call on all parties to continue enhancing the sovereign debt restructuring mechanism, including through strengthening coordination between debtors and creditors, and promoting the use of enhanced contractual clauses. The RMB has officially been included in the SDR currency basket on October 1, 2016, which is a milestone of the RMB internationalization and an acknowledgement of the progress in China's economic development, reform, and opening-up. It will help increase the representativeness, stability, and attractiveness of the SDR and improve the international monetary system. We welcome the IMF's researches and discussions on broadening the use of the SDR. China has already published its foreign reserves, balance of international payments and international investment positions in both U.S. dollar and SDR terms, and, recently, the World Bank has issued SDR-denominated bonds in China. China is willing to work with all parties in promoting reforms on the international monetary system, improving global economic governance, and maintaining global financial stability.