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On behalf of People's Republic of China

Statement by the Honorable Zhou Xiaochuan
Governor of the IMF for China
at the Twenty-Seventh Meeting of the International Monetary and Financial Committee
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I. Global economy and financial markets

The global economy witnessed some encouraging signs over the last six months. Tail risks in advanced economies abated somewhat and strong growth in emerging market and developing economies continued. Nevertheless, the global economy remains fraught with challenges, and strong, sustainable, and balanced growth is yet to be achieved. Decisive, effective, and durable solutions are urgently needed.

To achieve sustainable recovery and safeguard financial stability, further policy progress is called for in the advanced economies. In the euro area, while policy commitments to defend the monetary union have been stepped up, much remains to be done. Specifically, fiscal consolidation needs to be carried out at an appropriate pace, and structural reforms, such as labor market reform, should be accelerated to strengthen competitiveness and growth. A stronger financial oversight and resolution framework in the EU needs to be decisively implemented and a closer economic union needs to be pursued with firmer political backing. In the U.S., a credible medium-term fiscal consolidation plan remains elusive, and the challenges posed by a front-loaded budget sequestration and raising of the debt-ceiling should be addressed as soon as possible. In Japan, a medium-term fiscal consolidation plan is also urgently needed, given the persistently high level of public debts.

Although unconventional monetary policies in major advanced economies have helped stabilize financial markets and foster economic recovery, it is necessary to reevaluate the marginal benefits and costs of such policies after multiple rounds of monetary easing. Unconventional monetary policies alone cannot solve the structural problems faced by advanced economies, and should not become a substitute for structural policies. In fact, structural reforms are more important to make growth achievable and sustainable.

Policymakers in advanced economies should also be mindful of the spillover effects of these policies, such as more volatile capital flows, exchange rates, and commodity prices. Prolonged easing could exacerbate the financial vulnerabilities and affect the stability of the international monetary system.

While emerging market and developing economies have exhibited strong resilience so far, policymakers in these economies need to remain vigilant against domestic vulnerabilities. In particular, policy space needs to be rebuilt, while macroprudential and capital flow management measures should be readily deployed against excessive credit growth and volatile capital inflows. Structural reforms remain key to ensuring long-term sustainable growth.

II. The Chinese economy and policies

The Chinese economy continued to grow at a robust pace. GDP growth in 2012 was 7.8 percent, higher than the official target of 7.5 percent. China saw its GDP grow by 7.7 percent on a year-on-year basis in the first quarter of this year. Retail sales increased by 12.4 percent, while fixed asset investment and trade rose by 20.9 percent and 13.4 percent, respectively. Maintaining a reasonable growth track at present, China's GDP is expected to grow by around 7.5 percent in 2013.

Inflation has been relatively stable. After growing 2.6 percent in 2012, the CPI rose 2.4 percent year-on-year in the first quarter of 2013. However, considering the combined impact of persistent upward pressure on labor cost and primary products and services prices, resource products price reforms, and excessive global liquidity, the Chinese government remains vigilant to the challenges to price stability. CPI inflation is projected to be around 3.5 percent in 2013.

In line with the implementation of the 12th Five-Year Plan, rebalancing of the Chinese economy continues toward domestic demand, with the external position becoming more balanced. Final consumption expenditure and gross capital formation contributed, respectively, 51.8 percent and 50.4 percent to GDP growth in 2012, the second consecutive year that consumption contributed to growth more than investment. The current account surplus narrowed from 10.1 percent of GDP in 2007 to 1.9 percent in 2011 and 2.3 percent in 2012.

In 2013, proactive fiscal policy and prudent monetary policy will continue. M2 growth is expected to be around 13 percent, and budget deficit is set at RMB 1.2 trillion (about 2 percent of GDP). Basel III capital requirement has started to be implemented in China. Domestic banks are required to strengthen risk management of off-balance sheet activities and lending to local government financing platforms.

The Chinese government has placed great emphasis on structural reforms and actively pursued a number of measures to ensure long-term benefits. On financial sector reform, the Chinese government has decided to further interest rate liberalization, capital account convertibility, and exchange rate reform. On fiscal reform, measures have been initiated to improve the expenditure structure and reform the budget system for better transparency and inclusiveness. Urbanization will continue to be promoted, which will help to achieve the objectives of doubling the GDP, as well as income per capita, by 2020, compared with the levels in 2010.

In 2012, the Hong Kong SAR economy grew modestly by 1.4 percent, mainly dragged by weak external demand amid the fragile recovery of major advanced economies. Yet, the domestic sector stayed resilient, thanks largely to stable employment, improved income conditions, and strong public and private investment expenditure. The labor market remained in a state of full employment, with the unemployment rate falling to a 15-year low of 3.3 percent. Underlying consumer price inflation receded to 4.7 percent. Looking ahead, the Hong Kong SAR economy is forecasted to grow by 1.5 percent-3.5 percent, with inflation at around 4.2 percent in 2013.

Macao SAR's economic growth slowed to 7.4 percent in the second half of 2012. Private consumption, investment, and merchandise exports continued to expand, while the growth of service exports decelerated. For all of 2012, the economy grew by 9.9 percent. The unemployment rate hovered around a historical low of 2.0 percent, while the inflation rate stayed at a relatively high level of 6.1 percent. As the SAR's domestic activities remain vibrant, the gross domestic product is expected to maintain positive growth in 2013.

III. The role of the IMF

To ensure the legitimacy, credibility, and effectiveness of the IMF, it is imperative not to further delay the IMF quota and governance reform. We urge members that have yet to ratify the 2010 quota and governance reform to do so as soon as possible, recognizing that the increase in quota resources is essential to maintain global financial stability. With the work on the quota formula reform now being integrated into the 15th General Review of Quotas, we call for all members to work cooperatively to complete the 15th General Review of Quotas by January 2014, which should result in a continued increase of the representation and voice of emerging market and developing economies in the IMF. We also call for all members to strengthen their efforts on a new quota formula, which should be built on the understanding reached during the quota formula review and address the weakness in the current quota formula. The distribution of quotas based on the new formula should better reflect the relative weights of members in the world economy, and the actual quota shares should not deviate substantially from the calculated quota shares based on the formula.

The IMF surveillance framework has to be effective and relevant. We welcome the progress on implementing the priorities indentified in the 2011 Triennial Surveillance Review (TSR), in particular, the adoption of the Integrated Surveillance Decision (ISD). The ISD will strengthen the evenhandedness and effectiveness of the Fund's surveillance by moving toward a more comprehensive and effective surveillance framework that covers all relevant policies affecting the stability of the international monetary system. We urge the IMF to ensure that the ISD delivers its intended effect in addressing areas of concerns on past surveillance experiences. We believe there is substantial room for improvement in the pilot External Sector Report (ESR) and the methodology of External Balance Assessment (EBA) to address the concerns expressed by members.

Supporting Low Income Countries (LICs) continues to be an important policy agenda for the IMF. We support the IMF's recent initiatives in maintaining its lending support to LICs by making the Poverty Reduction and Growth Trust (PRGT) self-sustainable in the medium term and maintaining zero interest rate for all concessional loans to LICs. We also welcome the recent reviews of the IMF's policy on LICs, in order to eliminate policy distortions on LICs' incentives, and to enhance precautionary support and respond more quickly to LICs' financing needs. We continue to call for strong policy support to LICs, to help LICs move toward a higher stage of economic development.