INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Fifth Meeting
April 21, 2022

IMFC Statement by Gang Yi
Governor of the People's Bank of China

People's Republic of China

Statement at the Ministerial Meeting of the 45th Meeting of the International Monetary and Financial Committee (IMFC)

YI Gang, Governor of the People's Bank of China

I. Global Economic and Financial Developments

Since the second half of 2021, the global economic recovery has slowed down due to factors such as the resurgence of COVID-19 and supply chain shortages. Inflationary pressures have increased, and macroeconomic policies are faced with mounting challenges. The world is now in a turbulent time, with COVID-19 still with us and geopolitical tensions rising. The situation in Ukraine is particularly worrisome. Sanctions will not only undermine the stability of global finance, energy, transportation, and supply chains, but will also drag down global growth. This is in no one's interest. Looking forward, potential economic and financial risks arising from uncertainties related to COVID-19, inflation, and macro policy adjustments in advanced economies should not be overlooked.

A fair distribution of vaccines and medical supplies remains the key to bringing COVID-19 under control and achieving sustainable recovery. As of March 2022, China has provided more than 2.1 billion doses of vaccines to more than 120 countries and international organizations, accounting for one third of the total vaccines administered outside China. China has also been actively promoting international cooperation in vaccine research and development, production, and distribution, and has been calling for stronger international cooperation and policy coordination in fighting COVID-19, in order to make medical supplies and vaccines more accessible and affordable in developing countries.

China calls on all countries to support the peace talks between Russia and Ukraine. We encourage the two sides to keep the momentum of negotiations, and overcome the difficulties in negotiations, to bring about peaceful outcomes. The pressing task for now is to avoid the escalation of conflicts or even the loss of control. All countries should work together to build consensus and safeguard multilateralism. In particular, we should take effective measures to maintain the smooth functioning of global supply chains and defend the multilateral trading system. We call on all countries to join hands to improve global environmental governance, address climate change, and accelerate global green and low-carbon transition to achieve green recovery and development.

II. Economic and Financial Developments in China

The Chinese economy continues to recover steadily. Economic indicators have stayed within a reasonable range and the quality of growth has steadily improved. In 2021, China’s real GDP grew by 8.1 percent year on year. Prices and employment remained generally stable, with CPI increasing by 0.9 percent and 12.69 million new urban jobs being created. The balance of international payments was broadly stable. Since the beginning of 2022, main economic indicators have seen rapid growth despite domestic COVID-19 outbreaks and changes in the international environment. In the first quarter, real GDP increased by 4.8 percent year on year, and the value-added of large industrial companies grew faster compared with the end of 2021. Investment and consumption have steadily increased. In the first quarter, investment in fixed assets increased by 9.3 percent year on year, an acceleration of 4.4 percentage points compared with the growth rate for 2021; and total retail sales of consumer goods increased by 3.3 percent year on year, 1.6 percentage points faster than that in December 2021. Employment and prices were stable, and imports and exports performed well. The average CPI for the first three months in 2022 rose by 1.1 percent year on year. The surveyed urban unemployment rate stood at 5.5 percent, and exports and imports of goods in US dollar terms rose 15.8 percent and 9.6 percent respectively over the same period of last year.

On monetary policy, our sound monetary policy remained flexible, targeted, reasonable and appropriate through enhanced inter-temporal adjustments, playing a better role in supporting the real economy. The People's Bank of China (PBOC) used a mix of monetary policy tools to keep liquidity abundant at a reasonable level. We cut the reserve requirement ratio in July and December 2021, each by a half percentage point, releasing about RMB2.2 trillion of long-term funds in total. The PBOC will further cut the reserve requirement ratio by 0.25 percentage point on April 25. At end-March 2022, broad money (M2) reached RMB249.77 trillion, a year-on-year increase of 9.7 percent. The overall financing cost declined as a result. The weighted average interest rate on business loans in 2021 was the lowest in more than forty years since the reform and opening-up. To step up the support for key areas and weak links in the national economy, the PBOC continued with the inclusive loan repayment extension and unsecured lending support programs for small and micro businesses (SMBs). In 2021, inclusive loans to SMBs extended by banks grew by 27.3 percent. In April, the PBOC and State Administration of Foreign Exchange (SAFE) announced 23 new measures to step up financial support for businesses and people affected by the recent COVID-19 outbreaks. The RMB exchange rate has become more flexible, as we deepened the market-based exchange rate reform. The PBOC has also taken measures to prevent and mitigate financial risks by upholding market-based principles and the rule of law. As a result, financial risks have receded on the whole.

In recent years, China's effort to boost green finance has delivered positive outcomes. To mobilize more social capital to invest in green and low-carbon industries, the PBOC introduced two structural monetary policy tools in 2021: one is the Carbon Emission Reduction Facility (CERF), and the other is central bank lending to support the clean and efficient use of coal. At the same time, China has been firmly deepening the reform and opening-up of the financial sector, while advancing the liberalization and facilitation of trade and investment.

On fiscal policy, regular transfer of direct fiscal funds, which stood at RMB2.8 trillion this year, were available to local governments at all levels. In 2021, new tax cuts and fee reductions exceeded RMB1 trillion. Furthermore, micro, small, and medium-sized manufacturers, coal-fired power plants, and heat suppliers were allowed to temporarily postpone their tax and fee payments. As China continued to increase the investment in people's livelihoods, the well-being of the people is secured.

Economic fundamentals in China remain sound despite the grave international situation and recent domestic COVID-19 outbreaks. China's GDP is expected to keep growing in 2022, with more than 11 million new jobs to be created in urban areas.

Looking forward, China will focus on stabilizing the macro-economy and keeping the economy operating within a reasonable range. **The sound monetary policy will be implemented in a flexible and appropriate manner to keep liquidity abundant at a reasonable level.** The PBOC will adopt a mix of monetary policy tools to step up support for the real economy through adjusting both monetary aggregates and their structure. First, it will keep liquidity abundant at a reasonable level by increasing central bank lending to agriculture and small businesses and encouraging financial institutions to provide more inclusive loans. Second, it will explore measures to support consumption and effective investment by improving financial services for newly arrived residents and promoting the rapid growth of medium- and long-term loans to the manufacturing industry. Third, it will establish two special central lending facilities to support technological innovations and inclusive elderly services. **The proactive fiscal policy will be more effective, with more emphasis on making policy targeted and sustainable.** This year, we set the deficit ratio at around 2.8 percent as a way to improve fiscal sustainability. We expect the fiscal revenue to keep growing this year, and the expenditure to increase by more than RMB2 trillion over last year. New fiscal resources will be channeled to the grassroots to help distressed companies, stabilize employment, and ensure people's livelihoods. This will boost consumption and increase demand. **China will continue to improve the green financial system to help achieve the dual target of carbon emission peak and carbon neutrality.** China will act more proactively in developing the standard systems for green finance and transition finance. We will put in place incentives and constraints, develop diversified financial instruments, and continue promoting local green finance pilot programs and deepening international cooperation, so as to support the green and low-carbon transition in a strong, orderly, and effective manner.

On economic developments in the Hong Kong and Macau SARs. Underpinned by positive factors such as the ongoing global recovery and government support, the economy of the Hong Kong SAR grew by 6.4 percent in 2021, the first time since 2019. Shadowed by uncertainties from the new wave of COVID-19 and geopolitical conflicts, the economic recovery in Hong Kong is expected to slow down in 2022 to between 2.0 percent and 3.5 percent. The Macau SAR registered a real growth rate of 18 percent in 2021, driven mainly by the recovery in external demand and private consumption. Considering that COVID-19 has been put under control and vaccination rate has increased in the region, external demand will continue to recover and sustain Macau SAR's growth in 2022.

III. The Work of the IMF

We highly appreciate the IMF's efforts in helping its members, especially the low-income countries, respond to COVID-19 and in promoting global cooperation. The IMF should continue to press ahead with its quota and governance reforms, which are prerequisites for the IMF to fulfill its mandates. China supports a strong, quota-based, and adequately resourced IMF and would like to preserve its central role in the global financial safety net. The quota underpins not only the IMF's lending capacity, but also its representation, governance, and legitimacy. Quotas, rather than borrowing arrangements, should be the IMF's main source of financing. To this end, all parties should take a long-term view, fulfill their commitments, and press ahead with the quota increase and quota share realignment. We welcome the IMF's recent discussions on resource adequacy and quota share realignment, and we look forward to the timely completion of the Sixteenth General Review of Quotas by December 2023 with positive results, so as to effectively accomplish the quota share realignment. The realignment should reflect members' relative weights in the global economy and strengthen the voice and representation of dynamic emerging markets and developing countries.

China supports the IMF's efforts in promoting the channeling of Special Drawing Rights (SDR) and will actively participate in this initiative. China is willing to channel a portion of its newly allocated SDRs to low- and middle-income vulnerable countries. We hope the newly established Resilience and Sustainability Trust (RST) will soon be put into operation, which is of great significance for the global recovery and green growth, especially for low-income and vulnerable countries. In implementing the G20 Debt Service Suspension Initiative (DSSI), China has provided the largest amount of debt service suspension among G20 countries. We are now actively participating in the G20 Common Framework and support a case-by-case approach to addressing debt problems under the framework. The IMF should call on all parties—commercial creditors in particular—to restructure their debt in the principle of comparability of treatment.

The IMF should continue to play its central role in the global financial safety net. We support that the IMF makes full use of its existing lending tools and provides assistance to emerging markets and developing countries in need in an appropriate and flexible manner. China supports the IMF in providing necessary assistance to Ukraine and other affected countries. The IMF should continue to play an active role in reducing the negative impact of the COVID-19 crisis and the situation in Ukraine on the global economy, including by providing professional analyses and policy recommendations.

The global economy is now faced with multiple challenges. The IMF, as a major multilateral institution, should continue to enhance the effectiveness of its bilateral and multilateral surveillance to prevent the fragmentation of the global economy. We support the IMF as it implements the outcomes of the Comprehensive Surveillance Review (CSR) and provides targeted policy recommendations to its members based on their different phases of economic recovery and development. At the same time, we welcome the IMF's continued efforts to focus on new trends such as digitalization and climate change, to promote the digital transformation of the economy, and to support inclusive global growth. We support the IMF as it implements the results of its latest review of the Institutional Views on the Liberalization and Management of Capital Flows in its efforts to help member countries properly address risks from disorderly capital flows, especially the potential spillovers to emerging markets and developing countries from higher and more volatile commodity prices and the rapid monetary tightening in advanced economies.

China has always been upholding and practicing multilateralism, promoting global growth based on openness and innovation, supporting common development, actively addressing climate change, and facilitating green and low-carbon transition. We are willing to continue to work with all parties to coordinate macroeconomic policies and cooperate in fighting COVID-19, while jointly promoting an open, inclusive, balanced, and mutually beneficial economic globalization.