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**IMFC Statement by Gang Yi
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People's Republic of China

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Given the complex and volatile global economic and financial conditions, this statement focuses on global and Chinese economic and financial developments, as well as the IMF's Global Policy Agenda.

I. Global Economic and Financial Developments

The global economy is facing a complex and challenging environment, and the recovery is lacking momentum. Inflation has moderated recently but remains at historically high levels. Major advanced economies continue to raise interest rates and unwind central bank balance sheets, leading to stress and failures of some banks in the US and Europe and turmoil in the global financial markets. The cumulative effect of the current rate hikes is yet to be seen, and its impact on global economic growth, capital flows, and financial markets should be closely monitored.

Several issues and trends in the global economy deserve close attention. First, there is uncertainty about the extent and speed with which the high inflation can be contained. In particular, core inflation has remained stubbornly high, making it difficult to predict future price levels. Currently, global commodity prices, such as energy products, are still being disrupted by geopolitical conflicts. Despite an overall easing of supply chain tensions, they continue to be challenged by protectionist measures such as onshoring, nearshoring, and friend-shoring.

Second, the global economy is facing increasing downward pressures. Since the beginning of the year, major international organizations have lowered their forecasts for global growth in 2023. In addition to geopolitical conflicts, energy shortages, and high inflation, monetary policy tightening is also weighing on the economy. The rapid pace of interest rate hikes in major advanced economies could have a greater impact on global growth than expected, given the time lag before their full impact is felt and the potential for their contractionary effects to accumulate.

Third, financial risks may unfold more quickly in some areas. Liquidity tightening has intensified the financial market adjustment, leading to asset price volatility. Banks and non-bank financial institutions (NBFIs) are coming under increasing pressures as those with weaker financial positions are bearing the brunt. The risks associated with recent bank failures, such as the Silicon Valley Bank (SVB), require our attention. Meanwhile, the rate hikes by central banks in advanced economies have accelerated the capital flows back to safe havens, adding to outflow pressures elsewhere, especially in developing countries. As the dollar strengthens and their domestic economic outlook deteriorates, some emerging market and developing economies with higher dollar-denominated debt are being tested on their ability to service it.

Consensus and cooperation are needed to promote global economic recovery. The international community should work together for an open world economy and ensure safe, robust, and smooth global industrial and supply chains, so as to promote a steady recovery of the world economy. **First**, we need to strengthen international macroeconomic policy coordination to prevent negative spillovers from hasty policy adjustments and safeguard the stability of the international financial system. **Second**, we must adhere to multilateralism to support the global recovery and provide more stability and certainty. **Third**, we need to deepen international exchanges and cooperation in science and technology, and promote an open, inclusive, fair, equitable, and non-discriminatory environment for the development of science and technology. **Fourth**, we need to build green partnerships, avoid new “climate protectionist” measures, and strengthen cooperation on clean energy, decarbonization, environmental protection, and pollution prevention. **Fifth**, we must strive to promote common development, actively implement the Global Development Initiatives (GDIs), and forge a united, equitable, balanced, and inclusive global development partnership.

II. Economic and Financial Developments in China

Since the beginning of the year, as China’s response to COVID-19 has steadily moved into a new phase, the economy has been operating more smoothly, with supply and demand clearly improving, employment and overall prices remaining generally stable, and the economy showing a steady recovery. **The GDP growth forecast for 2023 has been set at around 5 percent. More specifically, recovery in industrial production has accelerated, and business sentiment has**

improved. In the first two months of 2023, the total value added of the industrial enterprises above the designated size grew by 2.4 percent year on year, 1.1 percentage points faster than that of December 2022. In March, the Manufacturing Purchasing Managers' Index stood at 51.9 percent, and the Production and Operation Expectation Index registered 55.5 percent. **The services sector rebounded strongly.** In March, the Services Business Activity Index stood at 56.9 percent, 1.3 percentage points higher than in the previous month. In terms of market expectations, the Business Activity Expectation Index for the Services Sector stood at 63.2 percent. **Market sales bottomed up, and fixed asset investment grew steadily, with investment in high-tech industries increasing rapidly.** In the first two months, total retail sales of consumer goods grew by 3.5 percent year on year. Fixed asset investment went up by 5.5 percent year on year, 0.4 percentage point higher than in 2022. Investment in high-tech industries grew by 15.1 percent. **Imports and exports of goods increased steadily, and the trade structure continued to improve.** In the first quarter, the total value of imports and exports of goods increased by 4.8 percent year on year, with exports growing by 8.4 percent and imports by 0.2 percent. In the first two months, the actual utilized FDI increased by 6.1 percent year on year (all in RMB). **Consumer prices rose moderately, and industrial producer prices fell year on year.** In March, the CPI increased by 0.7 percent year on year, whereas the PPI decreased by 2.5 percent. **Employment remained generally stable.** In the first two months, the urban surveyed unemployment rate averaged 5.6 percent. **There were positive developments in the real estate market.** The financial situation of leading real estate companies has improved significantly. Housing demand in first- and second-tier cities has started to increase, as reflected in the rapid growth of mortgage loans.

On monetary policy, sound monetary policy has been implemented in a well-calculated and faithful manner, creating a benign monetary and financial environment conducive to high-quality growth. Structural monetary policy has played an appropriate role, focusing its support on micro and small businesses (MSBs), the private sector, and green finance. The People's Bank of China (PBC) cut the required reserve ratio for financial institutions by 0.25 percentage point on March 27. It continued to deepen the market-based interest rate reforms and lower real interest rates of loans. In December 2022, the weighted average interest rate of corporate loans was 3.97 percent, 0.6 percentage point lower than a year earlier, the lowest since the figure has been published. The RMB exchange rate has remained generally stable at an adaptive and equilibrium level.

On financial stability, China's financial sector remains resilient, and risks are well under control. The banking sector, which holds more than 90 percent of financial system assets, remains generally robust, with large banks continuing to enjoy high credit ratings. Important progress has been achieved in reforming and de-risking in a small number of distressed small- and medium-sized financial institutions. Illegal financial activities have been effectively addressed, and financial markets are functioning smoothly. In 2023, China will continue to deepen financial system reform, improve supervision and regulation, and effectively prevent and resolve major economic and financial risks.

Regarding fiscal policy, proactive fiscal policy has become more effective and efficient, and efforts have been made to make it more targeted and sustainable. China has continued the policy support through a mix of tax and fee measures, accelerated the implementation of the VAT credit refund policy, and provided more support to SMBs and key sectors through tax cuts and fee reductions. In 2022, new fiscal support in the form of tax cuts, fee reductions, tax rebates, and tax/fee deferrals totaled more than RMB 4.2 trillion. China has properly determined the size of special local government bonds and accelerated their issuance and the use of the proceeds. In 2022, China issued more than RMB 4 trillion of such bonds to strengthen weak areas, enhance growth potential, and improve people's livelihoods. In 2023, proactive fiscal policy will be strengthened, and its effectiveness will be improved. The deficit ratio is planned to be 3 percent. Government investment and policy incentives should aim at effectively catalyzing investment from all circles of society. In addition, a total of RMB 3.8 trillion of special local government bonds will be issued this year as planned, of which RMB 826.9 billion were newly issued in the first two months of the year.

In terms of economic developments in the Hong Kong and Macao SARs, Hong Kong SAR's economy is expected to recover in 2023, benefiting from the reopening of the mainland and the SAR. Its GDP is expected to grow by 3.5 to 5.5 percent this year, mainly driven by the expected pick-up in the mainland's economic growth and a rebound of the inbound tourism. The recovery of economic activities post COVID-19 should also boost private consumption. Further improvements in the labor market and business climate will provide additional impetus. As for the Macao SAR, its GDP has contracted by 26.8 percent in 2022, mainly due to the decline in external

demand in and around the region caused by COVID-19. With the easing of entry restrictions since January 2023, Macao SAR's economy is expected to rebound with double-digit growth in 2023 due to the low base effect and positive outlook for services exports.

III. About the work of the IMF

China highly appreciates the IMF's efforts to support its members, especially the developing and low-income countries in responding to the ongoing COVID-19, inflation, climate change, and energy and food crises. China also commends the Fund for its efforts in promoting global multilateral cooperation and reducing the risk of economic and financial fragmentation.

To fundamentally enhance the Fund's legitimacy, effectiveness, and representativeness, and strengthen its ability to support its membership, the IMF should advance its quota and governance reforms. China supports a strong, quota-based, and adequately resourced IMF to maintain its central role in the global financial safety net. We look forward to the timely completion of the Sixteenth General Review of Quotas by December 2023 with positive results, so as to realize quota increase and quota share realignment that reflect the relative share of members in the global economy and strengthen the voice and representation of dynamic emerging market and developing economies. With just over eight months remaining, all parties should adopt a pragmatic approach and narrow down the reform options and the relevant approaches to ensure the timely completion of the review.

China supports the IMF's efforts to promote the channeling of Special Drawing Rights (SDRs) to countries in need. We hope that relevant work will be accelerated to provide tangible support to vulnerable countries. China has channeled a large proportion of its newly allocated SDRs in 2021 to support low-income and vulnerable middle-income countries, especially those in Africa, including through the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST).

China supports the multilateral efforts to address the global challenges of debt distress. China has implemented the G20 Debt Service Suspension Initiative (DSSI) in a responsible manner. 45 percent of the debt service suspension comes from China. We will also honor our commitment to

the Common Framework, join creditor committees, and make our contributions. According to the World Bank statistics, by the end of 2021, private sector and multilateral creditors hold 63 percent and 23 percent respectively of developing countries' external public debt. Collective action and fair burden sharing are required for a timely solution. The private sector creditors should participate in a comparable manner. We support exploring how comparability of treatment could be assessed and implemented. It is also important for the Multilateral Development Banks (MDBs) to make their contributions to debt restructuring, including by providing sufficient pure grants. We note that Zambia will receive additional grants from the World Bank starting from July. We welcome the IMF and World Bank's efforts to share necessary information on the macroeconomic projections and Debt Sustainability Analysis (DSA) at an early stage. Besides, there is room for improving the DSA methodology, such as introducing a balance sheet approach to count the assets created by debt financing.

The IMF should continue to play a central role in the global financial safety net and ensure to provide fair support to its members. The IMF should continue to play an active role in mitigating the negative impact on the global economy of COVID-19, the crisis in Ukraine, the food and energy crises, the persistently high inflation, the rapid tightening of financial conditions, and the turmoil in the US and European financial markets. The IMF should closely monitor the recent crisis in the US and European banking sectors and provide professional analysis and advice to countries.

Given the many challenges facing the global economy at this juncture, the IMF, as a key multilateral institution, should continue to enhance the effectiveness of its bilateral and multilateral surveillance, call for the removal of artificial restrictions on trade, investment, and supply chains as soon as possible, prevent global economic and financial fragmentation, and promote the development of fair and equitable global governance. At the same time, we welcome the IMF's efforts as it continues to focus on new trends and issues, such as digitalization and climate change, with greater attention to the needs of developing countries, to promote digital transformation of the economy, and to support inclusive global growth. We support the IMF in implementing the findings of its recent review of Institutional Views on Capital Flows, and in helping member countries make appropriate use of their full range of policy tools to properly address risks in the

foreign exchange markets and from disorderly capital flows, in particular those arising from the sharp monetary tightening in developed countries and the increasing spillovers from financial market turbulence to emerging market and developing economies.