International Monetary and Financial Committee

Thirty-Ninth Meeting
April 12–13, 2019

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Statement at the Ministerial Meeting of the
39th meeting of the International Monetary and Financial Committee
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I. Global Economic and Financial Conditions

Since the second half of 2018, global economic growth has been generally stable. Overall macroeconomic growth in the major developed countries remained in the normal range. Growth in major emerging market economies, represented by China and India, is sound and robust. However, global economic activity has slowed down, growth momentum has moderated, and downside risks have increased.

Downside risks facing the global economy have recently intensified. Currently, the euro area has experienced a sharper-than-expected slowdown and the uncertainties of Brexit have also weighed on investment spending in the euro area. In the US, the fiscal stimulus effect is waning, and growth has softened slightly. With growth softening in major economies, their policy space to tackle an economic downturn is shrinking. In terms of monetary policy, the policy rates remain low in major advanced economies and the balance sheets are large in size, which has constrained policy rate adjustment. In terms of fiscal policy, relatively high levels of public debt in many advanced economies are expected to further limit fiscal space. Uncertainties from trade frictions, the negative impact of tariff increases on trade, and the disruptions of global supply chains have gradually emerged. Trade friction can also dampen market confidence, which in turn amplifies financial market volatility and has an impact on economic growth. In addition, the protectionism of some countries has harmed mutual trust among countries, limited the scope for multilateral cooperation, and impeded the willingness to achieve it.

The build-up of financial sector vulnerabilities and sharp tightening of financial conditions could intensify vulnerabilities in countries. With various uncertainties in play, financial market fluctuations have widened. Currently, vulnerabilities in sovereign, corporate and nonbank financial sectors in some systemically important economies continue to build and emerge. Expansion of corporate sector debt and increasingly interconnected risks between governments and the banking sector, as well as maturity and liquidity mismatches of the nonbank sector, may amplify downward pressure of the economy. Under such circumstances, an unexpected tightening of global financial conditions could lead to the repricing of credit risks and higher debt service pressure. Meanwhile, portfolio investment flows to emerging markets are mostly affected by passive investors who are more sensitive to changes in global liquidity. External shocks could spread more rapidly to some mid-size emerging and frontier economies and intensify exchange rate and capital flow volatility.

As global economic expansion weakens and growth in advanced, emerging, and developing economies generally decelerates, all parties should enhance the resilience of their economies, and improve growth potential through monetary policy, fiscal policy, and structural reforms, in order to achieve sustainable and inclusive growth. Where downward pressures are more severe and protracted, countries with fiscal space can further ease fiscal policy and take growth-related demands into account. In the process of monetary policy normalization, major advanced economies should, on the one hand, maintain clear communication and remain data-dependent in order to avoid over-reaction by the market, and on the other hand, avoid excessive pro-cyclical stimulus and further build-up of risks. For sectors with heightened financial vulnerabilities, macro-prudential policies including counter-cyclical capital buffers should be deployed in order to enhance financial resilience, mitigate financial risks, and safeguard financial stability. Emerging market economies and developing countries should better mobilize domestic and global resources, implement growth-oriented macroeconomic policies, and promote infrastructure projects that boost long-term growth. Debt management should be strengthened to mitigate financial and external vulnerabilities. Flexible exchange rates can serve as a cushion to enhance resilience to tightening financial conditions, capital outflows, and commodity price fluctuations. All parties should continue to improve macroeconomic policy coordination among countries, oppose all forms of trade and investment protectionism, and jointly promote investment and trade liberalization around the globe.

II. China's Economic and Financial Condition

The Chinese economy has been generally stable, and progress has been made continuously in improving and upgrading the economic structure. In 2018, China's GDP increased by 6.6 percent, contributing nearly 30 percent to world GDP growth. Growth of domestic demand was generally stable, and the retail sales of consumption goods grew by 9.0 percent year-on-year. Fixed-asset investment expanded by 5.9 percent year-on-year. Employment continued to be stable and the surveyed unemployment rate remained at around 5 percent. Prices were steady and the CPI increased by 2.1 percent year-on-year. China has proactively expanded imports, and the current account surplus in 2018 only accounts for 0.4 percent of GDP. China's growth has placed greater emphasis on quality and become more balanced. In 2018, domestic consumption played a greater role in promoting growth, with the service sector contributing nearly 60 percent to economic growth, and final consumption expenditure contributing 76.2 percent to GDP. Energy consumption per unit of GDP declined by 3.1 percent year-on-year and the quality and efficiency of growth has continued to improve.

The Chinese government continues to implement the high-level opening-up strategy, through measures such as tariff cuts. The market access for the agricultural, manufacturing, and service sectors has been relaxed and the negative list for foreign access has been shortened substantially. The opening-up of the financial and automobile sectors has been further expanded. China's reform on SOEs has made sound progress. By the end of 2018, more than 1900 zombie firms, formerly central SOEs, and distressed enterprises have been resolved and have exited the market. Excess capacities in the coal and steel industries have been further reduced. The stock market, which has seen a slack in the past few years, is showing signs of bottoming out and recovering. As international institutional investors diversified their portfolio investment and China further opened up the bond market and stock market, foreign portfolio investment reached a record high of 120 billion dollars last year. With RMB-denominated assets increasingly included into global indexes, the potential for foreign portfolio investment inflows is growing.

This year, China will continue to implement prudent monetary policy and proactive fiscal policy, as well as enhance policy coordination. Prudent monetary policy will be neutral in general. Growth of M2 and aggregate social financing will be commensurate with that of nominal GDP growth, to better serve the goal of maintaining economic growth within an appropriate range. In 2019, China will pursue a proactive fiscal policy with greater intensity and enhance its performance, focusing on cutting taxes and fees on a larger scale, totaling nearly 2 trillion yuan (equivalent to 280 billion dollars). VAT rate will be cut by 3 percentage points.

Going forward, China will further expand the opening-up of the financial sector. The relevant arrangements and rules will be improved to ensure that opening up can be implemented in a systemic manner at the institutional level. Chinese and foreign-funded financial institutions will be treated equally in a way that is more transparent and consistent with best international practices to strengthen the vitality and resilience of the financial sector. Meanwhile, the coordinating role of the State Council Financial Stability and Development Committee will be fully utilized in rolling out policy measures with proper strength and pace to generate synergy. The two-pillar framework of monetary and macro-prudential policies will be enhanced. Development of financial market infrastructures will be accelerated and the resolution mechanism for distressed financial institutions will be improved. China will continue to improve the exchange rate mechanism and keep the RMB exchange rate in line with fundamentals at an adaptive equilibrium level. China will continue to improve its business environment, promote opening-up at a high level and across the board, and further expand sectors for opening-up, so as to deepen reform in a comprehensive manner. In the meantime, the People's Congress has approved the *Foreign Investment Law*, which will strengthen protection of intellectual property rights (IPR), improve compensation system for IPR infringement, and strictly prohibit forced technological transfer. The relevant laws and regulations will be revised in line with the principle of competitive neutrality. Policies and measures that hamper the growth of private businesses or fail to treat domestic and foreign investors as equals will be overhauled. A fair competition review system will be implemented in all governments including central, provincial, municipal and county level by the end of this year. Under this system, all business-related policies, rules and measures will be reviewed, and mechanisms for filing complaints and third-party evaluations will be established to forestall and redress any action that may preclude or constrain competition.

Though growth momentum weakened in the second half of 2018, the GDP of the Hong Kong Special Administrative Region (SAR) increased by 3.0 percent in 2018. Private consumption has risen significantly, and robust internal demand has been maintained. But growth has gradually slowed down during the year. Unemployment rate dropped to 2.8 percent, a record low in more than 20 years. Consumer price grew from 1.7 percent in 2017 to 2.6 percent in 2018. In view of factors such as weaker global growth and the shift toward prudent consumer sentiment, Hong Kong SAR's economy is projected to expand by 2 to 3 percent this year.

In 2018, the GDP of the Macao Special Administrative Region (SAR) increased by 4.7 percent. Service exports, as the main driver of growth, expanded by 9.4 percent. The unemployment rate declined to a relatively low level of 1.8 percent. Inflation growth was 3.0 percent and public finance remained in surplus. In 2019, further growth is projected for the Macao SAR economy.

III. IMF Reforms

The International Monetary Fund (IMF) should push ahead quota and governance reforms, which are a prerequisite for the IMF to fulfill its responsibilities. The G20 Summit and IMFC meetings have made several commitments to conclude the 15th General Review of Quotas based on the agreed timetable, so that the quota shares for dynamic economies can be increased to be in line with their relative positions in the world economy. We should be mindful of the serious importance of such commitments. China supports a strong, quota-based, and adequately-resourced IMF to preserve its central role in the global financial safety net. The quota not only underpins IMF's lending capacity, but also affects representation, governance, and legitimacy of the Fund. IMF quota reform should objectively reflect the relative positions of member countries in the global economy, as well as strengthen the voice and representation of emerging market economies and developing countries. The gap between the actual and calculated quotas should be narrowed in a constructive manner and the structural distortion of quotas should be reduced.

The IMF should continue to improve the effectiveness of bilateral and multilateral surveillance. Governance reform of the IMF, including reducing the structural distortion of quotas, is crucial to improving the legitimacy and effectiveness of IMF surveillance. We welcome the 2020 Comprehensive Surveillance Review and the FSAP Review. The IMF should focus more on risk management, strengthen communication with member countries to provide better tailored policy recommendations, and improve policy outcomes through capacity development for member countries. The IMF should make more use of a dynamic optimization approach and general equilibrium analysis in surveillance and upgrade its analytical toolkit to enhance its statistical basis, especially trade statistics.

The IMF should continue to support an open, inclusive, and rules-based multilateral trade system. Macroeconomic factors are major determinants of bilateral trade balance, while tariffs play only a limited role. Excessive global imbalances should be addressed by integrated macro-structural policies. China is willing to strengthen cooperation with all parties to safeguard and improve international rules, promote more open, more stable, and more transparent trade policies, support trade and investment liberalization and facilitation, and oppose trade protectionism. We are willing to promote economic globalization in a way that is more open, inclusive, balanced, and mutually beneficial, jointly advance a sustainable development of the global economy, and ensure that the benefits of trade are shared by all.

All parties should continue to advocate for strengthened cooperation under the multilateral framework, avoid policy missteps, enhance resilience, and jointly address global challenges. Countries should prioritize domestic policies, solve the entrenched structural issues in economic development, and avoid macroeconomic policy missteps. Unilateralism and protectionism can only exacerbate domestic imbalances and impair necessary structural adjustments, which can negatively affect the countries concerned as well as global growth. Under current conditions, countries should resolve trade disputes through cooperation, and multilateral mechanisms are particularly needed to play a proactive role. With a membership of 189 countries, the IMF enjoys special advantages and trust in strengthening international coordination and cooperation and can play a greater role.

The IMF should continue to help low-income countries improve their debt management capacity. China is willing to improve coordination with the international community on debt issues and supports the IMF's efforts to help low-income countries strengthen their debt management capability and improve institutional frameworks and governance. We support the IMF's work to improve lending tools and play a better catalytic role. The IMF should be growth-oriented in improving debt transparency and enhancing debt sustainability. There is still room for improving the IMF's Debt Sustainability Analysis (DSA) framework. It should adapt to the financing needs of productive infrastructures, which can generate economic returns and positive externalities.

We welcome the IMF's efforts to discuss corporate taxation in the global economy to enhance global cooperation, reduce cross-border tax avoidance, protect the tax base of all countries, and contribute to international coordination. We welcome the IMF's discussion on fiscal policy issues in implementing the Paris Climate Strategy. The IMF should continue to closely cooperate with other international organizations to help member countries better analyze the costs and benefits of various emission reduction measures and tackle the climate change challenges faced by countries vulnerable to natural disasters. To advance the Bali Fintech Agenda, the IMF should focus on analyzing Fintech's impact on financial stability and inclusive growth. Due consideration should be given to specific situations and needs of individual countries. We support the IMF's efforts in strengthening its work on governance issues, cyber risks, and data reporting by member countries, helping member countries to improve governance, and safeguarding cyber security in a collaborative way. We support the Comprehensive Compensation and Benefits Review to attract top talent and build a more diversified staff team. The IMF should continue to enhance capacity development assistance to member countries, and China is willing to engage in further cooperation with the IMF in this endeavor.