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Statement by the Hon. **YI GANG,**
Governor of the Fund for the **PEOPLE'S REPUBLIC OF CHINA**

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I. Global Economic and Financial Developments

COVID-19 has been an unprecedented shock to the global economy, but since June, as many countries gradually loosened or lifted their lockdown and containment measures, recovery has been gaining momentum. That said, however, the global economy is still fraught with uncertainties, including the potential resurgence of infections, weak demand, disorderly cross-border capital flows, a disconnect between financial markets and the real economy, and heightened geopolitical tensions. Downside risks remain sizeable and should not be underestimated.

Multilateral solidarity and cooperation play an essential role in our COVID-19 response. China has continued to advocate for international cooperation in the fight against COVID-19. In particular, we have pledged to make vaccines a global public good and will contribute to ensuring the accessibility and affordability of vaccines in developing countries. Meanwhile, countries should strengthen coordination in public health and macroeconomic policies to make the global COVID-19 response more synchronized and effective. It is imperative that countries bolster mutual trust, increase information sharing, remove trade barriers, take strong measures to maintain the normal functioning of global supply chains, and ensure the provision and flow of medical supplies and other necessities. COVID-19 has further underscored the importance of an open multilateral trading system and international cooperation. Multilateral international organizations, national governments, and the private sector should strengthen coordination and cooperation to provide assistances to countries less prepared for COVID-19. China will continue to uphold multilateralism and to strengthen cooperation with all parties to safeguard and improve international rules and jointly promote the sustainable development of the global economy.

II. Economic and Financial Developments in China

After effectively bringing COVID-19 under control, China has adjusted its overall containment strategy in a timely manner with emphasis on containing imported cases and preventing domestic outbreaks. The shift from emergency and extraordinary measures to regular prevention and containment has been supported by a prevention and control system featuring timely detection, rapid response, targeted control, and effective treatment. Recovery and economic growth can be sustained only when the COVID-19 situation is under control. At present, economic activities and everyday life in China have basically returned to normal. Following a contraction of 1.6 percent in the first half of the year due to the impact of COVID-19, China’s second quarter GDP has turned to positive and reached 3.2 percent. It is expected that GDP growth for the first three quarters of the year will be positive. The recovery of the industrial and service sectors is gaining speed, the growth of online consumption is accelerating, and new drivers of growth are strengthening. Consumer prices are basically stable, employment remains broadly stable, and imports and exports are performing better than expected. At the same time, the vitality of market players at the micro level has continued to improve, with the manufacturing PMI staying above 50 for six consecutive months. As the economy is mainly driven by domestic demand, China's substantial growth potential and resilience remain unchanged despite great uncertainties surrounding the global economy. The Chinese economy is set to continue its recovery path in the second half of the year.

Faced with weak global demand and an external environment that is posing challenges and raising uncertainties for recovery, the Chinese government has proactively implemented a series of supportive macroeconomic policies. The combined scale of fiscal and monetary policies already in place, as measured by its share of GDP, is sizable. These measures have helped achieve a positive growth rate in China and contributed significantly to the global recovery.

On the fiscal front, the fiscal deficit is expected to increase by RMB 1 trillion this year, with the deficit to GDP ratio reaching 3.6 percent this year from 2.8 percent last year. China has issued special treasury bonds amounting RMB 1 trillion for fighting COVID-19 and increased the issuance of local government special bonds to RMB 3.75 trillion this year for infrastructure investment and containment measures at the local level. China has proactively promoted new tax relief and fee reductions, the size of which will exceed RMB 2.5 trillion for the whole year. Support is also being scaled up for the most vulnerable.

On the monetary front, prudent monetary policy has become more flexible and appropriate, with strengthened counter-cyclical adjustments to safeguard economic and financial stability. Over RMB 9 trillion of liquidity has been injected into the system, accounting for around 9 percent of the GDP. With reference to the aggregate size of the measures, the People's Bank of China (PBC) has released RMB 1.75 trillion of liquidity into the system by lowering the reserve requirement ratios three times this year. It has also provided RMB 1.8 trillion liquidity through central bank lending and discounts. These measures aimed at ensuring a reasonable and adequate level of liquidity for supporting reopening of companies. The PBC has also used a variety of instruments to guide market interest rates downward, with the 7-day reverse repo rate, the 1-year MLF rate, and the 1-year LPR rates adjusted downward by 30 basis points since the beginning of this year. Consequently, the weighted average interest rate of newly issued corporate loans declined to 4.64 percent at the end of June, 48 basis points lower than that of the end of last year. Moreover, the main interest rates in the money and bond markets are also significantly lower compared to the previous year. On the structural side, the PBC has innovatively introduced two policy measures that reach firms directly. The first measure allowed small, medium, and micro businesses to extend their loan repayment deadlines to March 2021. The second measure was to purchase 40 percent of the new loans extended to micro and small businesses, which can, to some extent, address the problem of collateral shortage faced by micro and small business, and is expected to mobilize RMB 1 trillion of new loans to the real economy.

Supported by relevant policies, China's financial markets have remained stable and the banking system has been generally resilient. By the end of August, outstanding broad money M2 reached RMB 213.68 trillion, a year-on-year increase of 10.4 percent. The outstanding aggregate financing to the real economy (AFRE) amounted to RMB 276.74 trillion, a year-on-year increase of 13.3 percent. Outstanding RMB and foreign currency loans stood at RMB 173.66 trillion, a year-on-year increase of 12.8 percent. The RMB exchange rate has remained basically stable and fluctuated in both directions, with enhanced flexibility. While COVID-19 has caused some downward pressure on banks' credit asset quality, the overall loss absorption capacity of the banking sector remains strong. By the end of the second quarter, the capital adequacy ratio and the non-performing loan (NPL) ratio of the banking sector were 14.21 percent and 1.94 percent respectively. The financial industry remains generally stable with risks well under control.

Looking into the future, China will pursue a sound monetary policy that is more flexible, well calibrated, and better targeted. The PBC will use a variety of tools to ensure adequate liquidity in the system. Efforts will be made to enhance the role of structural monetary policy tools in ensuring precise liquidity injection and enable the policies to provide more direct support for the real economy. The PBC will make good use of the RMB 1 trillion central bank lending and discounts for supporting micro and small businesses, while ensuring that the repayment deadlines of this type of loans are extended as needed. Fiscal policy will be more proactive, with an emphasis to improve its effectiveness. Moreover, China will steadfastly continue its economic reforms and opening up, further relax market access, steadily improve the business environment, actively expand both imports and exports, and increase overseas investment. We will also promote international coordination to address the impact of the pandemic and safeguard global economic and financial stability. At the same time, China will actively support a green recovery through green finance, innovative green financial products, more investments into green industries in line with market principles, and shifting to a low-carbon green growth model.

The Hong Kong and Macao SARs have recently experienced downward pressures on their economies, but their fundamentals remain sound in the medium and long term. The Hong Kong SAR economy shrank by 9.0 percent year-on-year in the second quarter, while the unemployment rate surged to 6.1 percent in August. The near-term outlook for Hong Kong SAR remains highly uncertain, with the economy projected to shrink by 6 to 8 percent in 2020. In order to deal with the pandemic and boost the economy, a series of measures worth around 11 percent of GDP has been rolled out by Hong Kong SAR government to support the economy. The Macao SAR economy shrank by 58.2 percent in the first half of 2020, mainly caused by the COVID-19 pandemic, travel restrictions, and other containment measures. The performance of service exports was weak, the unemployment rate slightly rose to 2.7 percent, and inflation eased to 1.6 percent, while public finance remained strong. With the global economy shrinking significantly, Macao SAR is expected to register a double-digit economic contraction for the whole year.

III. The Role of the IMF and the World Bank

China appreciates the timely and productive efforts of the IMF and the World Bank in assisting their members to fight COVID-19. To help them better fulfill their mandates, we would like to propose the following recommendations.

The IMF should continue to push ahead with quota and governance reforms, which are a prerequisite for the Fund to effectively fulfill its mandate. China supports a strong, quota-based, and adequately resourced IMF to preserve its central role in the global financial safety net. Quotas, rather than temporary funding arrangements, should be the IMF's main source of financing. COVID-19 has once again shown the importance of a quota increase. We look forward to a timely positive conclusion of the Sixteenth General Review of Quotas that can reflect members' relative positions in the global economy and strengthen the voice and representation of dynamic emerging markets and developing countries.

China supports a general allocation of Special Drawing Rights (SDRs), as it can help the Fund fulfill its mandate and facilitate the global recovery. The international community should reach a consensus on SDR allocation and implement it as soon as possible. As the pandemic enters its next phase, the IMF should gradually shift its lending activities from helping member countries address short-term shocks to assisting them in stabilizing the economy and achieving full recovery over time. We welcome efforts to ensure that the IMF can make full use of existing lending facilities in a flexible way to support its members. We support the IMF's extension of the temporary increase in access limits under the Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF) through April next year. China has actively responded to the IMF's call and quickly contributed to the Catastrophe Containment and Relief Trust (CCRT), supporting the Fund's efforts to provide debt service relief for the poorest and most vulnerable countries, and pledged new funds to the Poverty Reduction and Growth Trust (PRGT).

The IMF should continue to improve the effectiveness of its bilateral and multilateral surveillance. We support the IMF's gradual resumption of Article IV consultations, drawing upon cross-country experience of crisis response, economic reopening, and recovery policies. We hope that the IMF will further develop the Integrated Policy Framework (IPF), taking into account fiscal, financial regulatory, and other policies and focusing on their coordination and trade-offs. We hope that the Fund can adopt a holistic and consistent analytical approach based on country-specific circumstances.

The WBG should tap into its comparative advantages and strengthen its coordination with other multilateral development banks and international organizations in order to beef up support for developing countries in terms of funding assistance, knowledge sharing, and vaccine access. At the same time, it should explore all possible options to enhance its financial capabilities in an innovative way, so that it can provide new additional financial support to its clients.

The WBG should continue to improve its governance structure and enhance its legitimacy and institutional capabilities. China supports the continuation of the shareholding review of the International Bank for Reconstruction and Development (IBRD) and believes that the Bank, faced with the pandemic crisis, should consider all feasible approaches to enhance the much-needed funding resources and lending capacity, such as through raising capital. The review of voting power of the International Development Association (IDA) should be coordinated with the IBRD's shareholding review, to reflect the voices of all shareholders in a fair, balanced, and inclusive manner.

The WBG should strengthen its forward-looking analysis and lead the development agenda in the post-pandemic era. The Bank should help developing countries promote their digital and green economy and better integrate into the global value chains. It should adhere to its purpose of serving all its clients, strengthen cooperation with middle-income countries, and provide targeted and high value-added solutions.

The WBG should lead by example in implementing the G20 Debt Service Suspension Initiative (DSSI), which should follow the principle of joint action and fair burden-sharing. China calls on the World Bank, as an important multilateral creditor, to continue exploring feasible ways to undertake a joint action plan on debt reduction while ensuring its own financial soundness. This could include increasing the transfer of the IBRD's net income to IDA, establishing a special debt mitigation fund, and proposing as soon as possible a specific plan for the COVID-19 Liquidity Fund, so that new additional funds can be provided to the poorest countries. China considers it inappropriate to delay the transfer of the IBRD's net income to IDA in fiscal year 2020. The arrangements for handling debts should fully respect the willingness of creditor and debtor countries, whereas the role of the World Bank is to provide technical support. The current priority is to provide debt service suspension to poor countries in a timely fashion, for which we need to avoid setting excessive requirements on debt transparency which increases the burden of data reporting. The disclosure of debt information should be subject to national laws and agreements between relevant parties. For some new rules that are inconsistent with these laws and agreements, we should avoid forcing them into existence and ensure that commercial secrets are protected.

In addition, China will work with G20 members to implement the DSSI. We also call for the further extension of the initiative. All stakeholders, including multilateral, bilateral, and private creditors, should be on board to ensure an equitable solution. China also encourages relevant Chinese financial institutions to refer to the G20 initiative and, in an amicable way, to renegotiate commercial sovereign loan arrangements based on market principles.