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Statement by Ms. Mannathoko and Mr. Garang on People's Republic of China
(Preliminary)
Executive Board Meeting
January 14, 2022

We thank staff for the rich set of reports and Messrs. Jin, Zhang and Bai for their insightful Buff Statement. We welcome the rapid recovery of the Chinese economy in 2021, noting the important role this plays in supporting the global recovery. We concur with most of the staff appraisal and policy recommendations and offer the following comments.

Fiscal Policy: We support an expansionary fiscal policy stance in 2022, with the policy mix adjusted to support more balanced growth. Streamlining the tax system to ensure progressivity, and to bolster spending efficiency, especially for social welfare including unemployment insurance, would support the inclusive growth goal. While we agree that expanding the social safety net would also boost domestic consumption and support growth, we believe continued efforts to advance structural transformation are also important, with the enhancement of high-end skills and technology adoption to support higher income jobs. China's low-paid labor growth model has largely reached its limits and has led to economic and social imbalances. Over the past four decades, while China's rapid economic growth has lifted more than 800 million people out of significant poverty by creating sustainable jobs and improving social services; most of these jobs were however low-income, and continued structural transformation is needed to sustain productivity growth and improve household incomes. This is key in growing the middle class needed to boost private consumption in a meaningful way. *The solution to this extends beyond welfare support to helping the labor force transition into higher-paying jobs necessary to sustain productivity and long-term growth as the population starts to age*. *Staff comments are welcome.*

Monetary and Exchange Rate Policies: We support an accommodative monetary policy as long as inflation remains muted and negative output gaps persist. As noted in the Buff, growth of money supply broadly in line with nominal economic growth will continue to support economic recovery even as the authorities phase out potentially distortionary measures. We encourage the authorities to continue to maintain exchange rate flexibility needed to absorb shocks in the current uncertain environment. Measures to modernize the

monetary policy framework and strengthen policy transmission, and to enhance financial intermediation including by broadening access to finance for all segments, are welcome. We also applaud ongoing efforts to innovate, develop, and operationalize the PBC's central bank digital currency, e-CNY. This will help to expand financial inclusion and promote payments efficiency.

Financial Sector Resilience and Stability: We welcome ongoing efforts to address high corporate leverage and phase out implicit guarantees. Like staff, we also encourage a comprehensive bank restructuring to strengthen the banking system. The work on market-based insolvency and resolution frameworks is also important to ensure stronger banks that can continue to support growth. We also encourage timely supervisory attention to financial risks and vulnerabilities, ensuring banks address both new and legacy problem loans. Furthermore, we urge the authorities to improve risk surveillance and policy coordination to minimize systemic contagion in property markets and better monitor vulnerabilities in the nonbank financial sector, while adopting measures to reduce long-term risks.

Regulatory Measures: We note that actions targeting the technology sector, intended to enhance competition, consumer privacy, and data governance, have increased policy uncertainty. Extended policy uncertainty can do significant harm if not addressed, and we urge more attention to a robust policy communication strategy that will give markets a broader awareness of the government's endgame in the technology sector and the planned path. A governance and policy communication model that helps to ensure more stable market expectations and a clear business regulation environment will be important going forward.

Trade and International Cooperation: Under the Articles of Agreement, the IMF has an obligation to promote trade, advise members against trade conflicts, and work to avert trade wars. Like staff, we are very concerned at the implications of technological and other trade decoupling for the global economy, and see it contributing to slower global growth with negative spillovers to poorer regions exacerbating economic divergence. *Given continued and growing trade tensions, could staff comment on the IMF's analysis and advice, and any joint engagement with China, U.S. and the EU on measures needed to ensure a pro-trade global economy? Also, given the significant adverse spillover impacts for developing countries that are dependent on these large markets for growth, from various unilateral actions being undertaken, could staff comment on future analysis and IMF advice regarding averting negative spillovers that are further fueling economic divergence, or compensating developing countries*? *Consideration could be given to measures such as elimination of all tariffs against poorer regions such as SSA by systemic economies and economic groups, to help limit the current ongoing divergence. Staff views are welcome.*

Climate Change: We note that China's climate strategy has begun to take shape with the release of detailed action plans including a multi-pronged approach to decarbonization and carbon neutrality, and all levels of government having started the process of implementing these actions. We also note the significant efforts to date, on green development and green finance alongside improving mitigation, given China's position among large emitters of greenhouse gases, and welcome the formation of a high-level group tasked with the planning and implementation of the overall strategy for carbon peaking and carbon neutrality. We

encourage an ongoing focus on timely climate mitigation measures and greening of the economy. *Could staff elaborate on ongoing efforts to green the Belt and Road Initiative?*

Multilateral Efforts: We commend China for its participation in G20 initiatives, including the extension of the Debt Service Suspension Initiative (DSSI) and continued efforts to operationalize the Common Framework for debt treatments beyond DSSI and encourage recent efforts to enhance engagement. Further, we encourage ongoing support for multilateral efforts to enhance vaccine access, ensure sustainable financing for global infrastructure investment and address climate and trade challenges.

With these remarks, we wish the Chinese authorities success in their reform endeavors.