

December 21, 2020

**The Acting Chair’s Summing Up
People’s Republic of China—2020 Article IV Consultation
Executive Board Meeting 20/122
December 17, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They noted that the COVID-19 crisis has inflicted significant human and economic costs on China and commended the authorities for the effective containment measures and swift macroeconomic and financial policy support to mitigate the economic impact of the pandemic. Directors noted, however, that growth was still unbalanced and that fiscal, monetary, and structural policies should aim at strengthening private demand to allow for more balanced medium-term growth.

Directors called for a continuation of the moderately supportive fiscal and monetary policies until the recovery is on solid ground, while noting that, in the medium term, fiscal consolidation was necessary to ensure debt sustainability. To maximize the policy space, they saw benefits in further improving the macro-fiscal framework, including intergovernmental coordination and macroeconomic data, and called for a modernization of the monetary policy framework to strengthen the transmission of conventional interest rate policies and enhance financial intermediation. Some Directors encouraged the authorities to focus on broader concepts of the fiscal deficit. Directors also called for enhancements to the social safety net to reduce precautionary savings, which combined with greater progressivity in the tax system would help address income inequality.

Directors stressed the importance of addressing financial vulnerabilities proactively to safeguard financial stability. As the recovery takes hold, the temporary measures supporting the financial sector should be replaced with policies to address problem loans and strengthen regulatory and supervisory frameworks. Directors noted the need for a comprehensive bank restructuring framework in line with international best practices to allow for the orderly exit of weaker banks. While agreeing with the authorities on the potential benefits from digital currencies, Directors considered that more work was needed to assess risks. They also encouraged the authorities to continue improving their AML/CFT framework.

Directors welcomed continued progress on structural reforms, particularly in further opening up of the financial sector and improving labor mobility through *hukou* reforms. They stressed the need for further reforms of SOEs, including ensuring competitive neutrality between SOEs and private enterprises, and some Directors called for the need to remove remaining implicit guarantees. Structural reform will be key to boosting potential growth, reduce external imbalances, and build a more resilient, green, and inclusive economy.

Directors noted that while the current account surplus in 2020 should widen temporarily, it is expected to narrow over the medium term, reflecting an unwinding of the temporary impact of the pandemic and a rebalancing of economic growth. Directors also stressed that greater exchange rate flexibility would help the economy adjust to the changing external environment. Some Directors called for further improvement in the transparency of foreign exchange interventions and phasing out of capital flow management measures.

Directors welcomed the authorities' commitment to global cooperation, and noted that China, together with its partners, had an important role to play in supporting an open and rules-based international trade system. Directors also welcomed China's intention to play an important role in multilateral efforts to address pressing global challenges, including making any approved vaccine developed in China widely available to other countries and in mitigating climate change. They noted that China has a key role to play in the G-20 DSSI and Common Framework to provide debt relief to low-income countries, but noted that further improvements in data transparency were needed for the success of the global debt relief efforts. They welcomed China's ambitious plans for emissions abatement and increased green investment.

It is expected that the next Article IV consultation with the People's Republic of China will be held on the standard 12-month cycle.