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I. Global Economic and Financial Developments

Global growth decelerated in 2019, with growth momentum weakened and downside risks elevated. Escalating trade tensions, rising unilateralism and protectionism, geopolitical risks as well as increased policy uncertainties are weighing on global trade, investment, and market sentiment. Driving forces for growth have weakened in the advanced economies. Growth in the United States is showing signs of a slowdown with fading effects of fiscal stimulus. Growth in the euro area is slowing, and the uncertainties surrounding Brexit remain a drag to growth in the United Kingdom. While the emerging market economies have seen a softened momentum, they remain an important driver of global growth.

With growth slowing down in major advanced economies, policy space to deal with economic downturn is narrowing. On the monetary side, policy interest rates have remained low and central bank balance sheets have remained large, limiting the room for further policy rate adjustments and quantitative easing. On the fiscal side, except for a few countries, most advanced economies have high levels of public debt and limited fiscal space.

Uncertainties have continued to rise, and multilateralism and free trade are facing a number of new challenges. Potential escalation of trade tensions and policy uncertainties are the major risks facing the world economy. Signs of disruptions have emerged in global trade and in global industry chains, supply chains, and value chains. Trade tensions have dampened market confidence, which may amplify financial market volatility and drag down economic growth. Years of low-interest rates have led to a buildup of financial vulnerabilities. A sudden deterioration in financial market sentiment or a sharp tightening of financial conditions could exacerbate financial vulnerabilities and lead to increased volatility in capital flows. In addition, the wave of populism and protectionism in some countries has undermined mutual trust, reducing their willingness to cooperate on a multilateral basis. The impact of geopolitical conflicts, oil prices, climate change, and cybersecurity issues on economic growth and financial stability also warrant close attention.

Against this backdrop, all economies should improve their resilience to shocks by pursuing sound macroeconomic policies and pressing ahead with structural reforms. Countries should work together to secure sustainable and inclusive global growth. In the current environment of low growth, low interest rates and low inflation, monetary policy space and its effectiveness is limited in many economies. The problem of sluggish growth cannot be addressed by relying on monetary policy alone. When introducing further stimulus, countries need to pay due attention to the potential negative effects and strike an appropriate balance between boosting economic growth and meeting social objectives. Countries also need to improve medium- and long-term labor productivity through structural reforms. Monetary policies of major advanced economies should be well communicated and data-dependent. Excessive procyclical stimulus may lead to a further buildup of risks, and should therefore be avoided. Emerging market economies and developing countries should take steps to better mobilize domestic and external resources, implement growth-oriented macroeconomic policies, promote infrastructure development, enhance resilience to shocks, and guard against risks from volatilities in the global capital markets. It is imperative that all parties work together to build an open world economy by strengthening global cooperation, resisting all forms of protectionism in trade and investment, and promoting trade and investment liberalization and facilitation. To this end, an immediate priority is to resolve the deadlock over the WTO Appellate Body by unblocking its member selection and appointment process. At the same time, the WTO should step up discussions on emerging issues such as e-commerce, trade in services, and investment facilitation, and explore ways to strengthen the rules-based multilateral framework to adapt to the evolving world. The gap between developing and developed members should be taken into due account, and the legitimate rights of developing members, including Special and Differential Treatment, should be adequately protected.

II. Economic and Financial Developments in China

The Chinese economy has continued to grow steadily, with economic structure improving further. Facing significant external headwinds from trade protectionism in some major economies, China has maintained a stable growth in 2019, with main economic indicators kept within an appropriate range. Continued progress has been made in economic restructuring, aggregate demand and supply are basically in equilibrium, and growth has become more resilient. In the first three quarters of the year, China's GDP grew by 6.2 percent, making an important contribution to global growth. Consumption and investment continued to grow steadily despite downward pressures. In the first nine months of this year, total retail sales of consumer goods increased by 8.2 percent, and fixed-asset investment grew by 5.4 percent. Employment remained stable, with the nationwide survey-based urban unemployment rate standing at 5.2 percent in September. Due to various factors, pig production capacity dropped abruptly by 30 percent, leading to a higher CPI of 3.0 percent in September. In the first three quarters, the total value of imports and exports of goods increased by 2.8 percent over the same period of last year. The authorities have focused more on the quality of growth, and the economy has become more balanced. Domestic consumption has played an even greater role in driving growth, with consumption expenditure contributing over 60 percent to GDP growth.

Facing increased uncertainties and downward pressures, China has stepped up its efforts to improve its economic structure and advance its reform and opening-up agenda. In 2019, the negative list of foreign investment was shortened further, while market access for agriculture and mining industries was relaxed. Significant progress has been achieved in the opening up of the financial sector. Measures introduced in July cover a wide range of financial institutions, including credit rating agencies, wealth management companies, and pension fund managers. Restrictions on foreign equity holdings were relaxed, market access thresholds were lowered, and more recently, quota restrictions on the Qualified Foreign Institutional Investor (QFII) and the RMB Qualified Foreign Institutional Investor (RQFII) schemes were removed. China's stocks and bonds were added to major international indexes, Shanghai-London Stock Connect was officially launched, and further progress has been made in the internationalization of the RMB. China's state-owned enterprise reform is also making strides. Exit of the zombie central SOE is about 95 percent complete, and the remaining work is expected to be finished by the end of this year.

Since the beginning of the year, the People's Bank of China has cut the reserve requirement ratio three times to lower the cost of funds for the banks. The market-based interest rate reform has advanced further, with steps taken in August to improve the formation mechanism for the Loan Prime Rate (LPR). These policy measures have achieved desired results. Growth of the money supply and credit has been stable, and market interest rates have remained at low levels. In light of domestic and external developments, China will continue to pursue a prudent monetary policy. Counter-cyclical measures will be taken to align the growth of M2 and total social financing with that of nominal GDP. At the same time, attention will be given to maintaining a stabilized leverage ratio. The transmission mechanism for monetary policy will be further improved to reduce firms' funding cost and to promote high-quality economic growth. The central government has carried out a large-scale tax and fee reduction program. In the first half of the year, an additional RMB 1.1 trillion yuan in taxes and administrative fees were cut. These measures have been effective in alleviating the burden on the corporate sector, stabilizing market expectations, encouraging firms' R&D activities, boosting investment, and creating jobs.

The RMB exchange rate has remained broadly stable at an adaptive and equilibrium level based on market supply and demand and with reference to a basket of currencies. It has been moving in both directions to reflect market conditions. Depreciation since the beginning of August has been driven and determined by market forces and reflects shifts in market dynamics and volatilities in global foreign exchange markets amid recent global economic and financial developments and escalating trade tensions. The generally stable market reactions and balanced cross-border capital flows so far indicate that there is growing market acceptance for two-way exchange rate fluctuations. Judging both from economic fundamentals and from market supply and demand, the RMB exchange rate is at an appropriate level.

The Chinese government attaches great importance to preventing and mitigating major financial risks. Since the beginning of this year, the authorities have introduced a series of market-based and rules-oriented measures to address the risks of some small- and medium-sized banks. To protect bank depositors and clients, China has established the Deposit Insurance Fund Management Co., Ltd. to take over the liabilities of some troubled banks, with funding from the deposit insurance fund and support from the central bank. Creditors are expected to recover an average of 90 percent of the amount of their claims. The authorities have also taken a number of targeted measures to improve its liquidity management tools, including the rediscount window, the standing lending facility (SLF), the reserve requirement, and the relending operation. The aim is to restore confidence in the interbank markets, mitigate liquidity risks of small and medium banks, prevent moral hazard, and ensure market stability.

Going forward, China will remain firmly committed to all-round opening-up. We will further open up the manufacturing sector, the financial sector and other modern services sectors, take forward the reform of the exchange rate mechanism and the convertibility of the RMB under the capital account in a steady manner, lower overall tariffs voluntarily, further improve relevant laws and regulations, and strengthen intellectual property right protection. Efforts in all these areas will create an environment conducive to long-term stability and development.

The economy of the Hong Kong and Macao Special Administrative Regions has weakened recently, but the medium- and long-term fundamentals remain robust. Hong Kong's economy expanded modestly by 0.5 percent in the second quarter of 2019, reflecting sluggish external and domestic demand. The labor market largely remained stable, and the unemployment rate held steady at a low level of 2.8 percent. Consumer price inflation went up slightly to 2.9 percent. The prospect of a further slowdown of the global economy in the near term will continue to weigh on private consumption and investment sentiment, and risks are significant on the downside. Hong Kong's growth outlook for 2019 has been revised downward to 0-1 percent from the previously forecasted 2-3 percent. Due to the drag from slowing services exports and weakening investment, Macao's economy contracted by 2.5 percent in the first half of 2019. Unemployment remained below 2.0 percent, public finances maintained a surplus, and inflation eased to 2.8 percent. As investment is still facing downward pressures, Macao's real GDP growth is expected to register a mild downward adjustment for the whole of 2019.

III. IMF Reforms

We are deeply disappointed that the Fifteenth General Review of Quotas failed to agree on a quota increase and a quota share realignment. The IMF should continue to push ahead with quota and governance reforms, which are a prerequisite for the IMF to fulfill its mandate. The G20 Summits and the IMFC meetings have made several commitments to a successful conclusion of the Fifteenth General Review of Quotas, so that quota shares of the dynamic economies can be increased in line with their relative positions in the world economy. Those commitments should be respected. China supports a strong, quota-based, and adequately resourced IMF to preserve its central role in the global financial safety net. Quotas, not temporary funding arrangements, are the IMF's main source of financing. The failure to adjust quota shares undermines the representation, governance, and legitimacy of the IMF. We look forward to the IMF's commitment on future quota share adjustments with a clear timetable and roadmap. China will, along with the other parties, continue to push for reforms of the IMF's quotas that will strengthen the voice and representation of emerging market economies and developing countries, narrow the gap between actual and calculated quotas in a constructive manner, and reduce distortion in quota structure to reflect members' relative positions in the global economy.

As a multilateral institution, the IMF should continue to enhance the effectiveness and evenhandedness of its bilateral and multilateral surveillance. We encourage the IMF to continue to conduct an even-handed and multilaterally-consistent assessment of exchange rates and external positions, so that it can provide members with constructive policy advice. We agree with the IMF's view that exchange rate flexibility can help mitigate external shocks. The IMF's views on exchange rate issues should be consistent over time and across countries, and additional attention should be given to the exchange rate effect of monetary policy. With the current escalation in trade tensions, it has become even more pressing to follow a multilateral approach in addressing persistent excessive imbalances.

We appreciate the IMF's analysis of global imbalances on a multilateral rather than bilateral basis. Global imbalances are caused by countries' macroeconomic and structural policies as well as cyclical factors. Increasing bilateral trade barriers is not the right solution. Tariff hikes will largely be offset by the trade diversion effect, with limited impact on the overall bilateral trade balance. In order to reduce imbalances, both deficit and surplus countries need to pursue well-targeted macroeconomic policies and structural adjustment.

The IMF should continue to support an open, inclusive, and rules-based multilateral trade system. China stands ready to strengthen cooperation with all parties to safeguard and improve international rules, and fight against unilateralism and protectionism. We will continue to work toward a more sustainable world economy and a trade system that benefits all.

We welcome the 2020 Comprehensive Surveillance Review and the Review of the Financial Sector Assessment Program (FSAP). Care should be taken to balance the coverage of FSAP with the frequency of assessment. We support the review of conditionality in IMF-supported programs. Program design should take into consideration the programs' social implications, and a proper balance should be maintained among fiscal consolidation, debt sustainability, and economic growth. We support the IMF's efforts in helping low-income countries improve debt management and strengthen institutions and governance. As an important development partner of low-income countries, China has contributed to the economic and social development of these countries. China and the IMF have jointly established a capacity development center, which has provided many training courses, including those on debt sustainability, to low-income countries. In its debt sustainability assessments, the IMF needs to differentiate between debts of a productive nature and those incurred to finance consumption, and to focus more on growth and development needs. We welcome the review of the experiences with financial technology and support continued work on its implications for traditional economic and monetary theories and policy frameworks. We look forward to the IMF's continued role in this area to help countries build knowledge and to provide them with policy advice. We support the IMF's efforts to continue to retain a strong and diverse workforce through fair initiatives, including the Comprehensive Compensation and Benefits Review.