Yi Gang: Keynote speech - 13th Lujiazui Forum

Keynote speech by Mr Yi Gang, Governor of the People's Bank of China, at the 13th Lujiazui Forum, Shanghei, 10 June 2021.

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Honorable Secretary Li Qiang,
Mayor Gong Zheng,
Vice Mayor Wu Qing,
Chairman Guo Shuqing,
Chairman Yi Huiman,
Administrator Pan Gongsheng,
Ladies and gentlemen,

Good morning!

As the co-chair of the forum, I would like to extend warm welcome to all distinguished guests and friends attending the 13th Lujiazui Forum.

Lujiazui Forum has been held 12 times. It has stood witness to the progress of China's financial sector and the rapid development of Shanghai as an international financial center. China's financial sector has provided strong support to COVID-19 response since last year and served as a backstop to China's fast economic recovery. The development of Shanghai as an international financial center has also seen new progress. For instance, the first wholly foreign-owned life insurance firm and public equity fund, as well as the first foreign-controlled wealth management firm have been established in Shanghai; the first domestic interest rate options and a number of new globally-traded futures products have been launched here; Shanghai is also one of the frontrunners in the pilot regulation on Fintech innovation; and over 900 overseas institutions have entered China's interbank market, with total bond holdings hitting RMB3.3 trillion. We are pleased to note that Shanghai has ranked the third among all international financial centers in the world for two consecutive times. I would like to congratulate Shanghai on this remarkable achievement on behalf of the PBOC.

This year, the forum focuses on major issues such as financial support for peaking carbon emissions and achieving carbon neutrality, scientific and technological innovation, the well-being of the people and the opening-up of the financial sector. They are all important issues for the financial system as we set out to implement the new concepts of innovative, coordinated, green, open and shared development. They will go a long way in building a new development paradigm and achieving high-quality economic development.

Today, I would like to take this opportunity to share with you my observations on the monetary policy, green finance and inclusive finance. As China enters a new era of development, its demographic, resource, industrial and regional structures are all undergoing profound adjustments, which in turn, will have an impact on potential economic growth and price levels.

As the Chinese economy shifts from high-speed growth to high-quality development, the economic aggregate will keep rising. A bigger base number, coupled with slower productivity growth and demographic changes, will naturally lead to somewhat slower potential growth. The demographic changes will also have implications for supply and demand. In an aging society, growth driven by capital and labor inputs is hard to sustain. Sustainable growth should thus largely depend on improving total factor productivity (TFP) and unleashing the economic potential through reforms. Despite the severe impacts of COVID-19 of last year, we can still say with comfort that China's GDP is close to its potential growth.

Monetary policy should pay attention to the impact of structural changes on prices. An aging population is disinflationary, as precautionary savings will rise while the propensity to consume will drop. The green transition, however, will drive prices up. Then, what is green transition? It is defined as a shift to a low-carbon way of production and living. To put it simply, green transition encourages more use of clean energy, and less fossil fuel, a major source of carbon emission. However, under current technological conditions, clean energy is more expensive and less stable than fossil fuels. That is why the green premium came into being. Right now, the cost of fossil carbon emission is almost non-existent. Therefore, the job of green transition is to make the implicit cost of fossil carbon emissions explicit and impose restrictions on them. This will require for one, that emitters pay for incremental carbon emissions, and for two, that existing emission rights be made tradable through proper pricing. This way, those that reduce emissions will be rewarded while the emitters will pay their price. Production and consumption will then realize a low-carbon transition. Such a transition, however, will raise carbon emission-related costs and create upward structural pressure on prices. As the upward and downward pressure on prices in the above analysis offset each other to some extent, the overall price level is expected to stay stable.

Driven by rapidly rising commodity prices, global inflation will rise in the short run. However, there have been highly divergent views over whether inflation will become a long-term trend. Despite the COVID-19 shock, China managed to maintain a normal monetary policy last year. A stable domestic demand also helped with price stability. Our PPI has seen big increases this year and this is partly due to the low or even negative base numbers of last year. Therefore, when we look at PPI changes, it is advisable to use a longer-term approach, covering three consecutive years from last year to the next year. All things considered, it is estimated that China's CPI will rise gradually this year, but the annual increase is expected to be below 2 percent. Admittedly, the global COVID-19 situation, economic recovery, macro conditions and economic policies are all possible causes of uncertainties. We still need to stay on high alert against both inflationary and deflationary pressures arising from different aspects.

Given that the Chinese economy stays within an appropriate range and is around its potential growth, our price level is generally under control. Therefore, our monetary policy should be adaptive to the new development stage and prioritize stability. The PBOC will pursue a normal monetary policy, carefully balance inter-temporal supply and demand, and execute the policy with the right strength and intensity. Currently, China's interest rates are a bit higher than those of major advanced economies, while relatively lower compared with developing countries and emerging economies. An appropriate interest level is conducive to stable and sound development of all markets. We must continue to deepen market-based interest rate reform, and make the most of our Loan Prime Rate (LPR) reform. We must further improve our managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, promote both internal and external balance, and keep the RMB exchange rate basically stable at an adaptive and equilibrium level. While keeping the aggregate policy appropriate, monetary and credit policies should then focus on two structural issues.

First, we will make solid progress in developing green finance. Peaking carbon emissions and achieving carbon neutrality is a strategic decision of the CPC Central Committee. To reach this goal and to facilitate green transition of the economy, the PBOC has used structural monetary policy tools and put in place multiple measures. First, we have improved the taxonomy of green finance. More specifically, the PBOC, together with the CBIRC, have issued the taxonomy of green bonds and green credit. Meanwhile, we are working closely with our EU counterparts to harmonize taxonomies. Second, we are developing a climate and environmental information disclosure system. We have encouraged major domestic commercial banks to disclose climate-related information and are working on a plan to encourage more market entities, such as listed firms, to follow suit. Going forward, the PBOC plans to establish a unified disclosure standard. Third, we are encouraging financial institutions to enhance their support for green industries, and enrich the toolkit in support of emission reduction. Fourth, we are guiding financial institutions to guard against climate-related risks. The PBOC has conducted climate risk stress tests on financial institutions, and is monitoring and evaluating the green transition of financial institutions on a daily basis. The input costs, the expected life cycle and depreciation of existing infrastructure are to be fully considered in the course of transition. Transition parameters and different weights for dynamic risks should be properly designed so as to ensure a smooth transition.

Second, we will continue to grow inclusive finance. In recent years, we have increased financial support for micro and small businesses (MSBs) and self-employed individuals. We have secured jobs growth and improved people’s livelihood. By raising incomes and boosting consumption, we have helped to stabilize the overall economy. In line with the market principles and rule of law, we have made incentives more compatible, and improved credit risk management of commercial banks. So far, more than 36 million MSBs and self-employed individuals have got access to inclusive loans. We will continue to use structural monetary policy tools and form policy synergy with other agencies to guide banks to increase first-time borrower loans and unsecured loans while ensuring business sustainability. Banks and enterprises will be encouraged to strengthen credit risk prevention in a commercially sustainable manner. We will further improve financial services for MSBs by better applying Fintech, adopting the borrow-as-you-go lending model, and encouraging commercial banks to develop a long-term mechanism whereby they are willing, able and capable to lend.

To build Shanghai into an international financial center, we should follow the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, forge new advantages in international cooperation and competition, and make domestic circulation better and more effective by way of international circulation. Recently, the CPC Central Committee has once again set out clear visions and requirements for for the high-level reform and opening-up in the Pudong new area to support Shanghai in further improving its financial market system, product system, institutional system and infrastructure system, and in enhancing its capacity of global resources allocation. As I mentioned at the Lujiazui Forum before, Shanghai, as an international financial center, is bound to gain its edge based on RMB-denominated assets. Growing global appetite for RMB assets will derive new demand for RMB asset risk management, legal environment improvement and better talent support. In this process, Shanghai will become an RMB asset allocation center, a risk management center, a Fintech center, and a center of business excellence and financial talents, which, I am sure, will make the city a more competitive financial center internationally.

Going forward, the PBOC will continue to support the development of Shanghai as an international financial center. As Shanghai sets out to enhance its global resources allocation capacity, develop into a green finance hub that promotes dual circulations, drive high-quality and integrated development of the Yangtze River Delta region, and serve as a bridge connecting international and domestic markets under the new development paradigm, we stand ready to pledge our help and support.

I wish the forum a complete success. Thank you.