

# **Pan Gongsheng: Strike the right balance and pursue high-quality development of the Chinese economy**

Keynote speech by Mr Pan Gongsheng, Governor of the People's Bank of China, at the Annual Conference of the Financial Street Forum 2024, Beijing, 18 October 2024.

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Distinguished Party Secretary Yin Li, Mayor Yin Yong, Mr. Wang Jiang, Mr. Li Yunze, Mr. Wu Qing, Mr. Fu Hua, Mr. Zhu Hexin, and dear guests,

Good morning!

It is a great pleasure to attend the Financial Street Forum. I would like to take this opportunity to exchange views with you on three issues.

## **I. Progress in implementing a package of incremental monetary policies**

According to arrangements of the CPC Central Committee, financial regulators announced a package of policies to support stable economic growth on September 24. The move attracted great attention and received extensive support. The day before yesterday, the PBOC, the National Financial Regulatory Administration (NFRA), and China Securities Regulatory Commission (CSRC) organized a meeting with major commercial banks, securities firms, and fund companies to make arrangements for prompt implementation of the package of policies. Here I would like to share with you our progress in implementing relevant policies.

In terms of the required reserve ratio (RRR) and interest rate cut, on September 27, the RRR was cut by 0.5 percentage points, the 7-day reverse repo rate was cut by 0.2 percentage points, and the medium-term lending facility (MLF) rate was cut by 0.3 percentage points from 2.3 percent to 2 percent. We might further cut the RRR by 0.25-0.5 percentage points at proper time, depending on the market liquidity before the year-end. This morning, the commercial banks have announced to lower the deposit rates, and the loan prime rate (LPR) to be released on October 21 is also expected to drop by 0.2-0.25 percentage points. The four policies related to real estate finance have all been rolled out. Specifically, the adjustment of rates on existing housing loans is a policy to benefit people's livelihood unveiled at the decision of the CPC Central Committee. It will benefit 50 million households, whose interest expenses will be reduced by about RMB150 billion each year. As for the two financial instruments to support stable development of the capital market, the PBOC has established a special working group together with the CSRC and NFRA. Securities, funds and insurance companies swap facility (SFISF) are now open to financial institutions for application. The policies related to special central bank lending for shares buyback and holdings increase have been officially released today for implementation.

Since it was announced and implemented, the policy package has received positive feedback both at home and abroad. It has vigorously boosted social confidence and played an effective role in promoting stable economic and financial performance. We have taken three main factors into consideration while formulating these policies.

First, given the current economic performance, we need to implement strong macro aggregate policies. Major problems in the current economic operation, as reflected at the macro level, are insufficient effective demand, weak social expectations and low prices. A common market view is that we need to launch strong macro policies. According to the arrangements of the CPC Central Committee, the PBOC has conducted in-depth researches and prepared policy plans in advance. Against this backdrop, the CPC Central Committee promptly made the decision to launch a package of incremental policies, which reflect its determination to secure the economy, stabilize expectations, boost consumption and benefit people's livelihood. The market responded to the initiative positively.

Second, the economy still faces some prominent challenges, which are mainly related to the real estate market and the capital market. Drawing on international experience and China's practices in the past, we need to unveil targeted policies in response.

In terms of the real estate market, the PBOC, based on its mandate, has improved four real estate finance-related policies, supporting risk defusing and sound development of the real estate market from a macro-prudential perspective.

In terms of the capital market, the PBOC, together with the CSRC, has developed two instruments to facilitate the stable development of the capital market. The two instruments were designed completely based on market principles, and internationally there had been successful practices. Regarding the SFISF, the central bank does not provide fund support for the market directly, so it does not expand the central bank's money supply and base money. The central bank lending for shares buyback and holdings increase is targeted. The credit funds must not enter the stock market in violation of financial regulation. This remains a red line. The two instruments showcase the efforts of the PBOC to expand and explore its mandate of maintaining financial stability. We will keep on cooperating with the CSRC to gradually improve the instruments in practice, and explore day-to-day institutional arrangements.

Third, the central bank needs to observe and evaluate financial market risks, and adopt proper measures to cut off or moderate the accumulation of financial market risks from the perspective of macro-prudential management. Recently, the PBOC strengthened communications with the market on the long-term government bond yield. We aimed to contain the potential systemic risk derived from one-sided downward movement of long-term government bond yield driven by herd effect. The financial markets are highly sensitive, which means they rapidly react to and price in changes in policies and various factors. From a macro and in-depth point of view, the real economy and the capital market are interwoven and interactive. The valuation recovery helps the capital market to perform its functions of investment and financing. It breaks the vicious cycle of market slump and equity pledge risks, thus promoting the healthy development of listed companies, improving social expectations, and invigorating consumption and investment demand.

## **II. The right balance and high-quality development of the Chinese economy**

The objective of macroeconomic adjustments is to calibrate the economic development trajectory in the short term, while that of reforms and economic restructuring focuses on the mid- to long-term, which is to achieve high-quality development and sustainable economic growth.

Since the 18th National Congress of the CPC, General Secretary Xi Jinping and the CPC Central Committee have been highlighting the importance of improving the quality and benefits of economic growth. The 19th National Congress of the CPC made it clear that the Chinese economy had been transitioning from a phase of rapid growth to a stage of high-quality development. A requisite for China to adapt to the evolution of the principal contradiction facing the Chinese society, high-quality development focuses on addressing the problem of unbalanced and inadequate development, so as to better harmonize the major ratios in the national economy.

In physics, balance means that an object remains relatively stable under the combined action of several forces. The right balance in economic development refers to a dynamic process of the interaction and improvement of various economic structures and ratios, and it is a common phenomenon in the economic development of various countries.

Since the beginning of this century, the global economy has gone through three major balancing periods in which China were deeply engaged and made active contributions.

The first period was between 2001 and 2007. After China's accession to the WTO, its low cost factors fully integrated into the global industrial division of labour, which effectively expanded global supply, and enhanced the production efficiency. It helped to tame the global inflation and boost economic growth.

The second period was between 2008 and 2017. After the Global Financial Crisis, the world economy featured "three lows and one high", namely, low growth rate, low inflation, low interest rate, and high debt level. When the global demand was dampened, China took the initiative to vigorously boost domestic demand. The efforts helped spur the world economy and avoid its deflation. During the decade, China's contribution to the world economic growth was stable at around 30 percent.

The third period was after the outbreak of the COVID-19. Due to supply shocks and potent demand side stimulus, the global inflation once surged and stayed elevated. While China's supply chain system remained stable, it helped to fill the global supply gap, presenting China's sustained contribution to bringing down inflation and achieving economic balance in the world.

The Chinese economy has also undergone profound restructuring and balancing processes. In recent years, with the deepening of supply-side structural reforms, the acceleration in the establishment of a new development paradigm, and the adoption of other strategic measures, China has made continued efforts to shift its economic growth model from the traditional focus on high-speed growth to an innovation-driven, quality-

and efficiency-oriented mode. As a result, the quality and efficiency of supply have been improving while the value added of high-tech manufacturing has accounted for an expanding share. With the contribution from consumption continuously on the rise, consumption, investment, and net exports made up 56 percent, 42 percent, and 2 percent of China's GDP in 2023, respectively, as compared with the corresponding data of 49 percent, 47 percent, and 4 percent in 2010.

To promote high-quality economic development and sustainable growth, we need to strike the right balance in economic operation from the following three perspectives.

First, we need to strike the right balance between the pace and quality of economic growth. Given the vast size of the Chinese economy, we need to keep economic growth at a reasonable rate in order to boost employment and people's income. As the transformation of the economic development model and economic restructuring will likely affect economic growth in the short term, we need to strike the right balance, put effort into fostering the new drivers of economic growth, and firmly support stable economic growth so as to effectively upgrade and appropriately expand China's economic output.

Second, we need to strike the right balance between internal and external concerns in achieving economic growth. In recent years, the Chinese economy has seen effective improvements in its external equilibrium. China's current account surplus-to-GDP ratio, which fell from around 10 percent in 2007 to approximately 2 percent in 2011, has stayed within an internationally accepted range of 1-2 percent in recent years. Currently, as international geopolitical tensions have led to economic deglobalization, international trade politicalization and instrumentalization, the world's sustainable economic growth and welfare growth are facing obstacles. Upholding free trade and fair competition, we will remain committed to expanding two-way opening-up, and we will make better use of both domestic and international markets as well as their resources to further enhance the international competitiveness of Chinese enterprises and to accelerate the establishment of a new development paradigm.

Third, we need to strike the right balance between investment and consumption. During past economic cycles in the history, we have confronted economic downward pressures mainly by boosting investment and maintaining supply-side productive capacity, which has played a significant and effective role. In pursuing high-quality development, we need to follow the direction of economic restructuring to adjust investments and channel more of them to areas such as sci-tech innovation and basic livelihoods. We will continue to apply a people-centered development philosophy, focus on raising household income, optimize the structure of fiscal expenditures, enhance the social security system, and promote consumption growth, thus giving rise to a virtuous cycle in which "government encourages consumption, consumption activates markets, markets lead businesses, and businesses expand investment".

To achieve the right balance in the economy, we need to deal with the following priorities. First, macro economic policies should pivot from over-emphasis on investment to both consumption and investment, with more focus on consumption. Second, the relationship between government and market should be handled in a more appropriate manner, which calls for a scientific management and balance of the boundaries between government and market, and an enhanced

pertinence as well as targetedness of policies regarding market concerns. Third, reform and opening-up will be further deepened to foster a favorable economic environment based on the rule of law and to create a more equitable and vibrant market environment.

### **III. The positive role the PBOC plays in serving high-quality development of the economy**

The PBOC is both a financial regulator and a supervisory authority of the macro economy. Focused on the primary mandate of serving high-quality development, we will intensify the counter-cyclical adjustments of monetary policies and macro-prudential policies, and enhance the precision and effectiveness of financial support policies, so as to create a sound monetary and financial environment for the stable growth and structural adjustments of the economy. We will steadily advance the financial opening-up at a high level and strike the right balance of the economy.

First, we will further improve the monetary policy framework. I elaborated on the framework in Lujiazui Forum in June. Today, I would like to emphasize the following points. In terms of policy objectives, we will take reasonable prices rise as an important consideration, and give a bigger role to price-based policy tools, such as interest rate. In terms of policy implementation, we will enrich the monetary policy toolbox on an ongoing basis, make good use of structural monetary policy tools, and gradually increase transactions of government bonds in open market operations. The PBOC and the Ministry of Finance (MOF) have established a joint working group, and relevant institutional arrangements will be improved continuously. In terms of policy transmission, we will continue to enhance the transparency of monetary policies, improve the independent pricing capabilities of financial institutions, and heighten consistency with fiscal policies, industrial policies, and regulatory policies, in a bid to achieve a more efficient transmission of monetary policies.

Second, we will provide more adaptive and targeted financial services to support economic restructuring and rebalancing. We will further intensify the macro credit management, continue to promote technology finance, green finance, inclusive finance, old-age finance and digital finance, and step up efforts to provide prime financial services for major national strategies, key areas and weak links. We will continue to build a financial market that is well-regulated, transparent, open, dynamic and resilient, and support developing diversified financing channels.

The high-quality development is inseparable from sci-tech innovation. Modern sci-tech innovation projects are characterized by long investment cycle, huge investment, high risk and uncertainty. They call for diversified financial services. In particular, enterprises in seed stage and start-ups are highly reliant on equity financing. Therefore, active private equity investments (PEs) and venture capitals (VCs) are very important market participants. The PBOC will strengthen communication and cooperation with relevant authorities, improve the financial policies supporting sci-tech innovation, cultivate a financial market ecology that is conducive to sci-tech innovation, so as to continuously enhance the capacity, intensity and quality of financial support for sci-tech innovation.

Third, we will improve the macro-prudential framework and the mechanism for systemic financial risk prevention and resolution. From a macro perspective, we will maintain a right balance between economic growth, economic restructuring and financial risk

prevention, improve the system of risk monitoring, early warning and resolution, and enhance the financial stability guarantee system. We will closely watch the economic and financial performance, make timely counter-cyclical adjustments, and preemptively forestall and defuse systemic financial risks.

Fourth, we will build a new and open financial system at a higher level. We will steadily expand the institutional opening-up of financial services and financial markets, expand the connectivity between domestic and overseas financial markets, facilitate trade, investment and financing. In line with the market-driven principle and based on the independent decision-making of market participants, we will make steady and solid progress in advancing RMB internationalization. We will take an active part in global economic and financial governance and cooperation, and promote the balanced and sustainable economic development of China and the world as a whole.

Last but not least, I'd like to wish this forum a complete success! Thank you!