Pan Gongsheng: A few observations on global financial governance

Keynote speech by Mr Pan Gongsheng, Governor of the People's Bank of China, at the 16th Lujiazui Forum "Financial openness, cooperation, and high-quality development amid global economic changes, Shanghai, 18 June 2025.

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Distinguished Party Secretary Chen Jining,

Former PBOC Governor Zhou Xiaochuan,

Mayor Gong Zheng, Deputy Director Wang Jiang, Minister Li Yunze, Chairman Wu Qing, Vice Minister Hu Haifeng, Administrator Zhu Hexin, and dear guests,

Good morning!

I would like to thank Shanghai Municipal Committee of the CPC and Shanghai Municipal People's Government, especially Party Secretary Chen Jining and Mayor Gong Zheng. Thank you for your care and support for the financial work and the People's Bank of China (PBOC). It is a great honor for me to be the co-chairperson of this year's Lujiazui Forum. After years of efforts, the Forum has grown into a communication platform with significant global influence and wide market reach. On behalf of the PBOC and other hosts, I would like to express warm welcome and sincere gratitude to everyone.

At last year's Forum, I discussed China's monetary policy stance and the evolution of monetary policy framework down the road. Over the past year, the PBOC has adopted an accommodative monetary policy stance and rolled out multiple monetary policy measures. The aggregate and structural policy tools have effectively supported the sustained economic recovery and financial market stability. At the same time, we have improved the monetary policy framework, optimized the intermediate monetary policy variables, cultivated policy rates, enhanced monetary policy transmission efficiency, diversified monetary policy toolkit, and strengthened policy communication and expectation guidance. The transformation of monetary policy framework is a gradual and ongoing process, and we will continue to conduct assessments and make refinements in the future.

Now, I would like to share with you my observations on global financial governance. This is a very broad topic. So I will focus on four issues: international monetary system, cross-border payment system, global financial stability system, and the governance of international financial organizations.

I. On the International Monetary System

Throughout history, the international monetary system has never stopped evolving. The replacement of global dominant currencies reflects the profound change in the international landscape and the iteration of national competitiveness. In the 17th century, the Dutch Guilder became the early international currency. From the late 18th century to the first half of the 20th century, the British pound was the dominant currency globally. After the World War II, the U.S. dollar established its dominance and has retained its status up till now.

As a global public good, the international currency, if dominated by the sovereign currency of a single country, has inherent instabilities. **First,** a sovereign currency issuer tends to prioritize its own interests over the supply of global public goods when its own interests conflict with the attribute as a global public good. **Second,** fiscal and financial regulatory issues of a sovereign currency issuer and the accumulation of structural problems in its domestic economy may generate financial risks with spillover effects, or even escalate into a global financial crisis. **Third,** in times of geopolitical tensions, national security concerns, or even wars, the global dominant currency tends to be instrumentalized or weaponized.

The above problems have driven growing global discussions on the reform of international monetary system. Over the past decade, the driving forces behind the shifts in the international monetary system stemmed primarily from the economic and financial dimensions in the wake of the global financial crisis, and hence the discussions were centered on economic and financial developments. The discussions this time around, however, are mainly driven by geopolitical issues. Broadly speaking, there are two lines of argument.

The first one is on how to weaken the excessive reliance on a single sovereign currency and its negative impacts, foster healthy competition among a few strong sovereign currencies, and put in place incentive-restraint mechanisms. A multipolar international monetary system can prompt sovereign currency issuers to strengthen policy constraints, enhance the resilience of international monetary system, and more effectively safeguard global economic and financial stability. Madam Lagarde, President of the European Central Bank (ECB), noted in her recent speech that the global order based on multilateral cooperation is fracturing, with uncertainty about the dominant role of the U.S. dollar, and the changing landscape could open the door for the euro to play a greater international role.

Over the past two decades, the evolution of international monetary system had two key features. **The first was** the creation of the euro in 1999. The euro now accounts for around 20 percent of global foreign exchange reserves, second only to the U.S. dollar. **The second was** the steady rise of the RMB's international status after the global financial crisis in 2008. The RMB has already become the world's second largest trade finance currency. Calculated on a comprehensive basis, the RMB has become the world's third largest payment currency. Besides, the weight of the RMB in the International Monetary Fund's Special Drawing Rights (SDRs) currency basket ranks third.

Going forward, the international monetary system is likely to continue its evolution towards a system where a few sovereign currencies coexist and compete with checks and balances. Be it a single sovereign currency or a small group of sovereign currencies serving as the global dominant currency, the sovereign currency issuers should assume their responsibilities by strengthening domestic fiscal discipline and financial regulation, and advancing the structural reform of the economy.

The second line of argument is on a super-sovereign currency serving as the global dominant currency, and discussions have been largely focused on SDRs. Dr. Zhou Xiaochuan, former governor of the PBOC, once raised this issue in 2009. Theoretically, SDRs can effectively overcome the inherent problems of a single sovereign currency as the global dominant currency. It offers greater stability in currency value and is better positioned to function as a global public good, as it can help manage global liquidity and facilitate crisis response. The SDR has the attributes of a super-sovereign currency.

Having said that, we still lack political consensus and will globally, if the SDR were to become a global dominant currency. Moreover, insufficient market scale, depth and liquidity have limited the role of SDRs. Turning SDRs into a global dominant currency requires member countries to build political consensus, which is not easy, given the current international landscape. Optimizing operational arrangements is also needed to gradually expand the usage of SDRs. **In terms of allocation and issuance mechanisms,** the International Monetary Fund (IMF) issues SDRs mainly as part of crisis response and mostly in the form of a large one-off allocation. In the future, the IMF can issue SDRs regularly and expand the size of issuance. **Regarding the scope of use,** we need to encourage private sector and market entities to use SDRs in international trade, investment and financing, and to issue SDR-denominated bonds. We need to enhance the role of SDRs as a reserve asset, and establish the SDR settlement mechanism adaptable to large-scale usage.

II. On the Cross-Border Payment System

The cross-border payment system serves as the artery of global funds flow. It is a keystone for facilitating international trade, investment and financing, and for safeguarding financial stability. It is also a vital pillar of the international monetary system. The evolution of the international monetary system towards coexistence of a few sovereign currencies and booming digital technologies will promote the diversification of the cross-border payment system, which will, in turn, accelerate the shifts in the international monetary system.

In recent years, problems faced by the traditional cross-border payment system have loomed large. **First,** there is a generational differences between traditional cross-border payments and emerging digital technologies. Problems of low efficiency, high costs, and poor penetration demand urgent resolution. **Second,** cross-border payments require coordination among different legal and regulatory frameworks, as well as among different stakeholders. Therefore, we need to enhance international cooperation. G20 and other international organizations attach great importance to promoting cross-border payments, and formulated a roadmap to enhance cross-border payments. **Third,** the geopolitical rivalry has escalated. The traditional cross-border payment infrastructures can be easily politicized, weaponized, and used as unilateral sanction instruments, thus undermining the international economic and financial order.

Against this background, there have been growing calls for improving the cross-border payment system. New payment infrastructures and settlement methods are continuously emerging, driving the global cross-border payment system onto a more efficient, secure, inclusive and diverse trajectory. This trend will continue to strengthen.

First, the cross-border payment system has become more diversified. In terms of currency usage, an increasing number of countries and regions are using local currencies for settlement, promoting the international use of a broader range of currencies. Cross-border payments dominated by a single sovereign currency are undergoing gradual changes. **As for payment channels,** the rise of new cross-border payment systems and regional multilateral payment systems, along with the traditional correspondent bank model, has diversified settlement channels and further improved the efficiency of cross-border payments. After over a decade of construction and development, China has basically established a cross-border RMB payment and clearing network featuring multiple channels and wide coverage.

Second, the interoperability of payment systems and payment ecosystems continues to improve. More countries and regions have extended the operating hours of their payment systems, adopted internationally standardized messaging formats, and promoted the interconnection of fast payment systems. These efforts have enhanced the efficiency of cross-border payments and reduced transaction costs. Countries and regions exemplified by Asia have made substantial progress in enhancing the interoperability of retail payment ecosystems through the interconnection of QR code payments, greatly facilitating cross-border payments by their residents.

Third, new technologies are used in cross-border payments at a faster pace. Underpinned by new technologies such as blockchain and distributed ledger, central bank digital currencies and stablecoins are thriving, making possible the simultaneous processing of payment and settlement. The development has fundamentally reshaped the traditional payment landscape, and significantly shortened the cross-border payment chain. It, however, has also posed great challenges to financial regulation. Technologies, such as smart contracts and decentralized finance, will further promote the evolution and development of cross-border payment systems.

III. On the Global Financial Stability System

Before the 2008 financial crisis, the international community mainly relied on IMF, which is at the center of the Global Financial Safety Net (GFSN), for crisis response during and after crisis. After the 2008 financial crisis, ex ante prevention mechanisms such as financial regulatory rules were further strengthened.

On the one hand, the multi-layer financial safety net has continued to improve. I gave a speech on strengthening the financial safety net at the Boao Forum for Asia in March last year. **At the global level,** in recent years, the IMF has continuously enhanced its crisis response capabilities in times of crisis, strengthened its policy surveillance functions, and expanded the scope of policy surveillance. **At the regional level,** the European Financial Stability Facility, the Latin American Reserve Fund, the Chiang Mai Initiative in Asia, and the Arab Monetary Fund have been established successively, serving as important supports for financial stability in their respective regions. **At the bilateral level,** central banks in the major advanced economies such as the U.S. Federal Reserve and the ECB have injected liquidity into the markets during crisis through currency swap arrangements. The local currency swap cooperation among emerging markets has also progressed steadily. The PBOC has signed bilateral currency swap agreements with central banks or monetary authorities in over 30 countries and regions. These swap arrangements have become an important part of the GFSN.

On the other hand, the crisis prevention system based on regulatory rules has been continuously refined. After the 2008 global financial crisis, the international community overhauled the global financial regulatory system through a number of major reforms, including issuing Basel III, enhancing the robustness of banking institutions, and strengthening the supervision of systemically important financial institutions (SIFIs). China has been actively involved in the formulation and implementation of international regulatory standards, and is one of the few economies that have fully implemented Basel III. China has developed a regulatory framework for SIFIs, and its systemically important banks have all met the total loss-absorbing capacity (TLAC) requirements. China has put in place a deposit insurance scheme capable of providing full protection for more than 99 percent of depositors. It has also issued and fully implemented regulations on asset management, which has significantly reduced the risk of shadow banking.

Currently, the global financial stability system is faced with some new challenges.

First, the regulatory framework remains fragmented. There is even a propensity to "race to the bottom". In recent years, due to domestic political headwinds, some countries have wavered in their implementation of international regulatory rules, such as Basel III. It may lead to regulatory arbitrage, and undermine global financial stability system. The international community should proactively implement the agreed regulatory reform measures, thereby preventing regulatory arbitrage and cross-border transmission of risks.

Second, the regulation on emerging areas, such as digital finance, remains insufficient. For example, global regulatory coordination is incommensurate with the quick-expanding crypto asset market, and coordination on climate risk-related regulatory framework is yet to be improved. Regulatory stance swings widely, and is highly prone to political influence. A harmonized regulatory standard on the adoption of artificial intelligence in the financial sector is also absent. The international community needs to strengthen coordination and bridge the gaps in regulation.

Third, the regulation on non-bank intermediaries remains lax. In the past two decades, the weight of non-bank intermediaries in global financing has risen significantly. Funding through non-bank intermediaries is relatively unstable and less transparent, yet the leverage is rising, which calls for enhanced regulation.

We believe that the key path to crisis prevention and resolution is to establish a diversified and efficient GFSN with a powerful IMF at its core, and to ensure the consistency and authority of global financial regulatory rules. This is also the path that we must follow through.

IV. On the Governance of International Financial Organizations

After the World War II, starting with the founding of the IMF and the World Bank, the international community gradually built up a multi-tiered and multi-dimensional system of international financial organizations, covering areas such as international policy coordination, financial regulatory rule-making, and multilateral development. These organizations have become major platforms for international financial governance, and they play an important role in promoting global economic and trade growth as well as safeguarding global financial stability.

While global economic landscape keeps changing, quotas and voting power haven't seen any material adjustments for a long time in major international financial organizations, such as the IMF and the World Bank, as well as in some regional financial organizations. As a result, emerging markets and developing countries are significantly underrepresented, and this is incommensurate with their actual weight in the global economy. Moreover, the international community should also be well aware of the fact that a few member countries pursue unilateralism, and they have meddled in the governance and operation of international financial organizations. International financial organizations need to keep pace with the times and advance governance reforms to reflect in time the relative positions of member countries in the global economy and enhance the voice and representativeness of emerging markets and developing countries. International financial organizations should safeguard and practice true multilateralism, and improve governance efficiency.

Among all the international financial organizations, the IMF is at the core, and it plays a vital role in global economic and financial governance. The IMF is a quota-based international financial organization. The size of quotas determines the IMF's crisis response capacity in crisis, while quota shares determine member countries' voting power in the IMF and the amount of financing they have access to. The current quota shares can not reflect the relative positions of member countries in the global economy. An immediate quota share realignment in line with the consensus reached is crucial for the IMF to improve governance and enhance its legitimacy and representativeness.

The global economy is now facing heightened uncertainty. While improving their governance structures, major international financial organizations should further reinforce their roles in economic surveillance. They should assess objectively the risks facing the world and individual countries, and offer guidance to member countries to cement their support for economic globalization and the multilateral trading system. They should also strengthen policy guidance for member countries and enhance macroeconomic policy coordination to keep the international financial system stable.

Dear guests,

Improving global financial governance requires more frequent dialogues and stronger cooperation among all parties. Staying committed to reform and opening-up and upholding a path of multilateralism, we will work actively to play a constructive role in helping foster a global financial governance system that is more equitable, fair, inclusive, and resilient.

To conclude, I wish the Forum a full success. Thank you.