Pan Gongsheng: Speech - 2023 Annual Conference of Financial Street Forum

Speech by Mr Pan Gongsheng, Governor of the People's Bank of China and SAFE Administrator, at the 2023 Annual Conference of Financial Street Forum, Beijing, 9 November 2023.

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Distinguished Party Secretary Yin Li, Mayor Yin Yong, Administrator Yunze, Chairman Huiman, President Fu Hua, President Jin Liqun, and dear guests,

Good morning!

The convening of the annual conference of Financial Street Forum is of special significance at a time when the Central Financial Work Conference has just concluded. General Secretary Xi Jinping delivered an important speech at the Central Financial Work Conference, summarizing the financial work since the 18th National Congress of the Communist Party of China (CPC), analyzing the situation facing the high-quality development of finance, and deploying the financial work both at the current stage and in the years to come, which provided us with fundamental guidance for advancing financial work in the new era. Studying and implementing the guidelines of the Central Financial Work Conference is the most important task of the financial system at present.

Now, in light of the current economic and financial developments, I will share my insights on studying and implementing the guidelines of the Central Financial Work Conference.

First, China's economic growth has witnessed sustained rebound, and the high-quality economic development has been steadily advanced.

In the first three quarters of 2023, China's GDP grew at a rate of 5.2 percent, and the annual target of 5 percent is expected to be achieved smoothly. The day before yesterday, I met with a delegation from the International Monetary Fund (IMF) who visited China for economic and financial consultations. Their latest forecast for China's economic growth in 2023 stands at 5.4 percent, which is leading among the world's large economies. As the macro adjustment policies continue to unleash their benefits, the economic growth momentum has been strengthened, production and consumption have steadily rebounded, employment and prices have generally improved, the balance of payments has maintained a basic equilibrium, and major economic indicators have picked up. China's economic transition has continued to make headway, and investment in high-tech industries has maintained fast growth. In the first three quarters, the contribution of final consumption to economic growth reached 83 percent. Therefore, there are favorable conditions to continuously maintain steady economic growth and stable prices.

There are two perspectives for analyzing China's economic growth. The first is the size of the base. China's total GDP has exceeded RMB120 trillion, and the growth of 5 percent is not a low rate against the backdrop of such a large base. The second is to strike a balance between economic growth and its quality and sustainability. A proper economic growth is necessary, but it is more important to achieve high-quality and sustainable development. In brief, transforming the mode of economic growth is more significant than pursuing a high growth rate.

Second, the PBOC has continuously implemented the sound monetary policy to support the stable growth of the real economy.

Since the beginning of this year, we have strengthened the counter-cyclical adjustments, and used a mix of monetary policy instruments in terms of aggregates, structure, quantity and prices, providing vigorous and effective support for the development of the real economy. In March and September, the required reserve ratio (RRR) was lowered twice, injecting medium and long-term (MLT) funds exceeding RMB1 trillion. In June and August, the policy rate was cut twice, bringing down the market interest rates such as the loan prime rate (LPR) on a continuous basis. In August, we have launched the "policy package" for real estate finance, including lowering the ratio of down payment and the floor on second-home mortgage rates, and improving the standards for identifying whether a property is a "second home". In addition, we have guided commercial banks to adjust interest rates on existing home loans, helping households save about RMB170 billion every year and benefiting about 50 million households or 150 million people. We have increased the quota for central bank lending to support rural development and micro and small businesses (MSBs) as well as central bank discounts twice. We have extended the applicable term of six structural monetary policy instruments, including the inclusive MSB loan facilities.

At present, money and credit aggregates are growing at a proper pace, and the credit structure is continuously improving. The interest rate on corporate loans has maintained at a low level, providing strong and effective support for economic recovery and development.

Going forward, we will strengthen both inter-temporal and counter-cyclical adjustments for the monetary policies, and strike a balance between short-term and long-term goals, stable growth and risk prevention, as well as internal and external equilibria, thus creating a sound monetary and financial environment for stabilizing prices, promoting economic growth, expanding employment and maintaining the balance of payments in an equilibrium.

The first is to maintain reasonable growth in money, credit, and aggregate financing to the real economy (AFRE). The PBOC will use a mix of monetary policy tools to keep liquidity adequate at a reasonable level, and guide financial institutions to enhance the stability and sustainability of credit growth. In accordance with the requirements of the Central Financial Work Conference, we will take the initiative to activate financial resources that are inefficiently occupied and improve the efficiency of capital utilization. Up to now, outstanding loans in China's banking system have exceeded RMB200 trillion, and outstanding AFRE has exceeded RMB300 trillion. In the past few years, the annual increase in loans has registered about RMB20 trillion, and the AFRE has increased by over RMB30 trillion. Activating existing loans, improving the efficiency of their utilization, and optimizing the issuance of new loans are equally important to supporting economic growth.

The second is to continuously intensify support for major strategies, key areas and weak links. We will make good use of central bank lending to support rural development and MSBs, central bank discounts, and inclusive MSB loan facilities. Moreover, we will continue to implement the carbon emission reduction facility, special central bank lending for supporting the technological progress of enterprises, and special central bank lending for inclusive elderly care, etc. We will also support the sound development of sci-tech innovation, private enterprises and MSBs, advanced manufacturing, green development, and inclusive elderly care, and make significant efforts in the areas of technology finance, green finance, inclusive finance, pension finance, and digital finance.

The third is to keep the interest rate at a proper level to steadily bring down the financing costs for the real economy. Last year witnessed a rapid rate hike by the Federal Reserve (Fed), but China has been implementing a monetary policy that focuses on domestic conditions, bringing down policy rate steadily. The PBOC will continue to conduct interest rate management in a proper manner while giving priority to China's own economic goals. We will guide and adjust the macro interest rate according to the rules of market economy and the needs of counter-cyclical macro adjustments, aiming to keep the interest rate in line with the requirements for achieving potential economic growth.

The fourth is to keep the RMB exchange rate basically stable at an adaptive and equilibrium level. Since the beginning of this year, rising US dollar interest rates and heightened global risk aversion have pushed the US dollar index to a high level since 2003, driving the collective depreciation of non-US currencies against the US dollar. Driven by the steady recovery of China's economy, the RMB has remained basically stable against a basket of currencies and has strengthened against non-US currencies. In H2 2023, the RMB exchange rate index of the China Foreign Exchange Trade System (CFETS) has risen by 2 percent. The RMB has depreciated slightly by 0.3 percent against the US dollar, and has appreciated by 1.5 percent, 2.1 percent and 3.7 percent against the euro, the pound and the yen respectively. The international market generally believes that this round of the Fed's interest rate hikes is drawing to an end, and the momentum of the US dollar appreciation is weakening.

The market is playing a decisive role in the formation of the exchange rate, and the exchange rate serves as an automatic stabilizer in adjusting the macro economy and for the balance of payments. At the same time, we will resolutely correct pro-cyclical market behaviors, resolve market disorders, and guard against the risk of exchange rate overshooting, so as to prevent the formation of unilateral consistent expectations and self-reinforcement. After years of development, participants in China's foreign exchange market have become more mature, their trading behavior has become more rational, and the market operation has become more resilient. Meanwhile, as the regulators of China's foreign exchange market, the PBOC and the State Administration of Foreign Exchange (SAFE) have also become more composed and experienced in responding to market changes. We have the confidence, capability and condition to maintain the smooth operation of the foreign exchange market, and keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

Third, the PBOC has worked to forestall and defuse financial risks in key areas in order to effectively safeguard financial stability.

Currently, China's financial system on the whole is robust, financial risks are controllable, financial institutions are generally healthy, and financial markets operate stably. What people are now widely concerned about is the risks associated with small and medium-sized financial institutions, real estate finance, and local government debt.

Let's look at the risks of small and medium-sized financial institutions. China's high-risk financial institutions account for a very small portion of the financial system, either quantitatively or in terms of asset size. With reforms carried out in recent years to defuse risks, the number of high-risk small and medium-sized banks has fallen by half from the peak. In those few provinces with a relative concentration of high-risk institutions, plans are being made or implemented to defuse the risks of small and medium-sized banks through reforms in an effort to further decrease high-risk institutions and reduce their risks. The PBOC will work with relevant agencies to improve the system for financial risk monitoring, assessment, prevention and control and to enhance the mechanism with hard constraints for ensuring early corrections of financial risks. Also, we will further standardize and add authority to early corrections of risks associated with small and medium-sized financial institutions.

Turning to the risks of real estate finance, after having witnessed a long cycle of more than 20 years of prosperity, China's property market is undergoing a major transformation in pursuit of a new equilibrium. Profound changes are taking place as to the pivot level of housing demand, the structure of housing market transactions, and the housing market business model, giving rise to new features. Notwithstanding the challenges, the transformation of the property market has brought along new opportunities for development. As China is still in the process of urbanization and has large numbers of new urban residents, there is huge potential in people's rigid demand for housing and in their needs to improve living conditions, which provides a solid basis for the stable long-term development of the property market.

Against the background of a long cycle of prosperous development for the industry, some real estate companies had long operated on "high leverage, high debt, and high turnover". The rapid expansion of their balance sheets, complicated by factors such as the COVID-19 impact and the major shifts in supply and demand in China's property market, sent the risks of these companies rising to the fore and spreading in the industry, as shown typically by what happened in Evergrande. Over the past three years, in line with the arrangements of the CPC Central Committee and the State Council, competent agencies and local governments have adopted multiple measures, while the financial sector has provided support by taking a series of steps on both the supply and demand sides to improve the financing and operating cash flows of the industry and to optimize the real estate financial policies. To be specific, we have launched the "16 financial measures" and the special lendings for timely deliveries of presold housing projects; and we have adjusted the macro-prudential financial policies on the down payment ratio and home mortgage loan rates. With the economy continuing to recover, the real estate policies having effect, and the self-repair of the market going on, property market transactions on the whole have been improving since August.

Of outstanding bank loans, property-related loans now account for 23 percent, of which about 80 percent are personal home loans. As China has adopted a very prudent personal home loan policy over the years, generally speaking, the spillover effects of property market adjustments on the financial system are controllable.

Going forward, the PBOC will work actively with competent agencies and local governments to duly provide financial support for the stable and sound development of the property market, alleviate property market risks, and guard against their spillovers. We will guide financial institutions to keep the major financing channels stable, such as real estate credit and bond financing, and to meet the reasonable financing needs of real estate companies regardless of their ownership types. Meanwhile, we will provide low-cost MLT funding support for the "three major construction projects", such as the construction of government-subsidized housing, improve the system of financial policies for the rental of housing, and promote establishment of a new development model for the property sector.

Regarding the risks of local government debt, China's government debt overall is at a medium to low level internationally, with relatively small debt burdens on the central government. China's local government debt has two features. First, mainly used for infrastructure investment, it is usually backed by physical assets and has positive externalities for local economic development. Second, most of it is concentrated in provinces with large economic size and fast economic growth. They are able to resolve the debt on their own.

Since early this year, the financial departments have worked with relevant government departments to take a number of measures to actively support local governments in addressing debt risks.

The first is to strictly enforce financial and economic discipline, and encourage local governments and financing platforms to mobilize resources to repay debts by putting assets to better use or selling them.

The second is to strictly control new government-invested projects for regions with relatively heavy debt burdens.

The third is to urge financial regulators to launch relevant policies, thus guiding financial institutions, in accordance with market principles and the rule of law, to negotiate with financing platforms on an equal footing. Measures including debt roll-over, refinancing, and replacing outstanding debts are taken to defuse existing debt risks and strictly control the build-up of new debts. Moreover, a routine mechanism for monitoring the financial debts of financing platforms has been set up. If necessary, the PBOC will also provide emergency liquidity facility for regions with relatively heavy debt burdens.

The fourth is to support local governments in gradually spinning off the government financing function of financing platforms through mergers and acquisitions, asset injection, etc., so as to transform them into market-oriented enterprises that do not rely on government credit and are financially independent and sustainable.

Fourth, the PBOC has deepened the supply-side structural reform of the financial sector and accelerated the building of a modern financial system with Chinese characteristics.

The PBOC has expedited the building of a modern central banking system, and improved the framework for both monetary policy and macro-prudential policy regulation. We have deepened the market-oriented interest rate and exchange rate reforms, and improved the market-oriented interest rate formation, regulation and transmission mechanism.

The PBOC has promoted the building of a more rational financial institution system in terms of scale, structure and regional layout. We have worked harder to develop the institution for the bond market, and strengthened the overall regulation on financial infrastructures, in a bid to make the bond market more resilient and better at market-oriented pricing. We have improved the modern payment system that is extensive, efficient and safe, and further improved the credit reference system that cover the whole society to promote the development of China's credit reference market.

The PBOC has advanced the high-level two-way opening-up of the financial sector. Specifically, We have taken effective steps to promote RMB internationalization in a stable and prudent manner, deepened the reform and opening-up of the foreign exchange sector, and steadily expanded the institutional opening-up of financial markets, thus facilitating trade, investment and financing. We have made great achievements in China-US and China-EU Financial Working Groups, effectively advanced international cooperation in the financial sector, and played an active part in global economic and financial governance.

Finally, I wish this annual conference of Financial Street Forum a complete success.

Thank you!