Pan Gongsheng: Speech - opening ceremony of the Asian Financial Forum

Speech by Mr Pan Gongsheng, Governor of the People's Bank of China, at the opening ceremony of the Asian Financial Forum, Hong Kong, 13 January 2025.

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Honorable Chief Executive John Lee Ka-chiu,

Distinguished guests,

Good morning!

It's a great pleasure to attend Asian Financial Forum and get together with leaders from the global financial community in Hong Kong.

In recent years, with the strong support of the central government and under the guidance of Hong Kong SAR government, Hong Kong has actively embraced new development opportunities while upgrading its traditional advantages. The remarkable creativity and vitality hence stimulated have helped further consolidate and enhance the status of Hong Kong as an international financial center. We believe, with the "one country, two systems" policy as a strong guarantee and with the joint efforts made by people from all walks of life, Hong Kong will continue to leverage its unique advantage of enjoying the backing of its motherland and being open to the world, and enjoy long-term prosperity and stability.

On this occasion, I'd like to exchange views with you on China's economic development, macroeconomic policies as well as the efforts to help develop Hong Kong as an international financial center.

First, about China's economic situations and macroeconomic policies

Since 2024, the Chinese economy has picked up admist fluctuations. The target of 5 percent growth throughout the year is estimated to be achievable. In the first three quarters, China's GDP grew 4.8 percent year on year. Since late September, the CPC Central Committee has arranged a package of incremental policies and thus promoted a remarkable pickup of the economy. **On the whole,** the Chinese economy has managed to address a variety of risks and challenges in recent years, and proved to be strongly resilient. It has contributed approximately 30 percent to the global economic growth for years.

Currently, as the external environment is complicated and volatile, challenges remain in China's economic development. Externally, as the world pattern is becoming increasingly chaotic and intertwined, geopolitical conflicts continue, and trade protectionism prevails, challenges and uncertainties loom over global economic recovery, exerting a spillover effect on the Chinese economy. **Internally,** we still face problems such as insufficient domestic demand, especially consumption demand, weak social expectations, low price levels, etc.

The Chinese economy is blessed with powerful innovation capability, a super-large market, a complete industrial system, sophisticated infrastructure, and abundant high-quality human resources. We have confidence, capability, and means to overcome difficulties, resolve challenges, and achieve sustained growth. In 2025, China is expected to continuously inject strong growth momentum and stable force to the world. China will respond to the expectation of the international community with responsibility and courage, and it will continue to play its important role as the engine of the world economy.

Not long ago, the Central Economic Work Conference was convened. It made clear the target, macro policies and key tasks for the economic work in 2025. We will implement more proactive macroeconomic policies, and further improve the economic governance approach.

The first is to strengthen counter-cyclical adjustments in macroeconomic policies, and tune the trajectory of economic growth and functioning so as to maintain stable economic growth. We will implement more proactive fiscal policies, raise fiscal deficit ratio, expand fiscal expenditure, and adjust and improve the structure and distribution of fiscal expenditure. We will also implement an appropriately accommodative monetary policy, adopt a mix of monetary policy instruments including interest rates and required reserve ratio to bolster adequate liquidity and a favorable social financing environment.

The second is to proactively promote the transition of China's economic growth model to enhance the quality and sustainability of economic growth. It was made clear at the Central Economic Work Conference convened last month that we should focus on boosting domestic demand, especially the consumption demand of residents, and vigorously boosting consumption would be the top priority of the economic work for this year. The priority of macroeconomic policies should shift from promoting more investment in the past to promoting both consumption and investment, with more importance attached to consumption. By increasing residents' income, enhancing consumption subsidy support, innovating consumption supply, and improving social security, we will effectively expand consumption, give better play to the role of consumption in driving up economic growth, and promote high-quality development of the Chinese economy.

We will improve our approach to economic governance on an ongoing basis. We will handle the relations between the government and the market in a better way, scientifically balance their boundaries, and respect and leverage the decisive role of the market in resource allocation. We will speed up the building of a unified national market, foster a sound law-based economic environment, and create a more fair and vital market environment.

The third is to focus on addressing risks in economic functioning. The Chinese government has taken a series of policies to effectively mitigate risks related to local government debt and the real estate market. Up to now, these risks are contracting on the whole.

In terms of local government debt, the Chinese government debt level is in the middle-to-lower range internationally. The debt burden on the central government is not heavy while the debt risks of the local governments are mainly concentrated in some less-developed regions. In recent years, we have taken a series of measures to enforce strict financial discipline and control new debts. We have guided financial institutions to, following the market principle and the rule of law, consult on an equal footing with financing vehicles, and restructure their debts through rollover, paying off old debts with new loans, and debt swap. The aim is to gradually transform those financing vehicles into market-oriented enterprises. Up to now, the number of local government financing vehicles and their debt scale have both plunged, indicating a contraction of risks. To further defuse risks related to local government debt, the CPC Central Committee has decided to raise the debt ceiling of local government by RMB6 trillion, and allocate RMB4 trillion in the newly-issued local government special bond to swap the existing implicit debts. The two combined will provide funds worth of RMB10 trillion, which will significantly reduce the pressures on local governments in defusing debts, and mitigate the debt risks of local financing vehicles.

In terms of the real estate market, after long-cycle prosperity for nearly three decades, China's real estate market has experienced a fundamental shift and is now looking for a new point of equilibrium. We have implemented a mix of policies from both demand and supply sides, such as removing restrictions on housing purchase in medium- and large-sized cities, optimizing real estate financial policies (lowering the down payment ratio and mortgage rates, and establishing a financing coordination mechanism), and improving relevant tax policies. Meanwhile, the market entities worked hard to heal and improve themselves by adjusting their operation strategies and restructuring their debts. With these efforts, the risks of the real estate market have been greatly mitigated and the transactions increased overall. Since October 2024, the floor area of for-profit housing sold in 30 medium- and large-sized cities has grown for three consecutive months on a month-on-month basis and for two straight months on a year-on-year basis. The CPC Central Committee has made it clear that local government special bonds are allowed to be used for idle existing land buyback, new land acquisition and reserve, and for-profit housing purchasing. This will further accelerate the de-stocking of the real estate market and enable the real estate market to stop declining and stabilize.

The fourth is to lay emphasis on the internal and external equilibria in the economic growth. In recent years, the external equilibrium of the Chinese economy has been effectively improved. The current account surplus-to-GDP ratio dropped from around 10 percent in 2007 to around 2 percent in 2011, and remains within the range of 1 to 2 percent in recent years, which is generally considered as reasonable by the international community. The current geopolitical tensions have led to economic deglobalization as well as politicalization and instrumentalization of international trade, which hampers sustained growth of the world economy and the increase in the global welfare. We will firmly follow the path of reform and opening up and the path of multilateralism, advocate free trade and fair competition, and make better use of both international and domestic markets and resources, so as to accelerate the building of a new development paradigm.

Recently, the US Dollar Index has remained high, and most non-USD currencies have depreciated. The RMB has also depreciated moderately against the USD, but overall shows strong resilience. After years of endeavor, China's foreign exchange market has achieved remarkable development. Market participants are more mature and the trading activities are more rational. The RMB cross-border payments and receipts have reached 30 percent in goods trade, lowering the exchange risk exposure faced by enterprises in production and operation. As the regulators of the foreign exchange market, the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) are now more composed and experienced in the face of market changes. We are confident and capable of maintaining stable functioning of the foreign exchange market. We will pursue the principle of letting the market play a decisive role in exchange rate formation, and leverage the role of exchange rate as an auto stabilizer in macroeconomic management and for the balance of payments. Meanwhile, we will firmly correct pro-cyclical behaviours, fight against conduct that disrupts market order, and prevent the risk of exchange rate overshooting, so as to keep the RMB exchange rate basically stable at an adaptive and equilibrium level.

Second, about deepening the financial cooperation between the Chinese mainland and Hong Kong

Hong Kong is a major international financial center, boasting a highly open business environment, a developed financial market system, sophisticated financial infrastructure, enormous human resources advantages, a sound legal system, and an internationalized financial regulation system. In November, Vice Premier He Lifeng explicitly pointed out in Hong Kong that effectively building, strengthening, and developing Hong Kong as an international financial center is not only what Hong Kong needs, but also what matters to our country.

In recent years, the PBOC, together with other relevant authorities and departments, has promoted the implementation of a series of practical measures, including Bond Connect, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Cross-boundary Wealth Management Connect, Swap Connect, and signing currency swap agreement with the Hong Kong Monetary Authority (HKMA), to bolster development of the offshore RMB market in Hong Kong, which has achieved remarkable progress. The efforts injected new momentum into the development of Hong Kong as an international financial center. In 2024, the financial markets in Hong Kong witnessed more brisk activities, with RMB deposits, loans, Dim Sum bond issuance, and foreign exchange trading maintaining good momentum.

Going forward, we will continue to extend full support to develop Hong Kong as an international financial center with our efforts focused on four areas.

Firstly, we will support the development of the capital market in Hong Kong and deepen connectivity between the financial markets in Hong Kong and the mainland. A thriving capital market serves as the core and backbone of Hong Kong as an international financial center. We will explore to expand the role of central bank in macro-prudential management and financial stability, and coordinate and cooperate with financial regulatory authorities in Hong Kong to support the stable and healthy development of capital markets in both mainland and Hong Kong. We will encourage quality enterprises to get listed and issue bonds in Hong Kong, and expand the connectivity mechanisms between the mainland and Hong Kong for stocks, bonds, wealth management products and interest rate swaps. Also we will deepen the financial cooperation within the Guangdong-Hong Kong-Macao Greater Bay Area, and increase the allocation of China's foreign exchange reserves in assets in Hong Kong, so that the financial development in Hong Kong will embrace a broader future.

Secondly, we will expand and strengthen the status of Hong Kong as an offshore RMB business hub. Hong Kong is an offshore RMB business hub with the largest business volume in the world. The PBOC and the HKMA have signed a currency swap agreement in the amount of RMB800 billion. Giving play to the role of currency swap arrangements and RMB clearing banks in a coordinated way, we will support the HKMA in supplementing RMB liquidity on the offshore market by drawing on the swap line. We will issue RMB government bonds, central bank bills in Hong Kong on a regular basis, and enrich the products and services provided on the offshore RMB market in Hong Kong. The PBOC and the HKMA have set up a specific working group committed to the study, research and design of relevant policies and products.

Thirdly, we will strengthen Hong Kong's function as an international asset management and wealth management center. Hong Kong is the largest global asset management center and private wealth management center in Asia. We will further optimize the Cross-Boundary Wealth Management Connect and QDII scheme, and solidly implement Mutual Recognition of Funds enhancements, to better meet the needs of residents in both the mainland and Hong Kong for cross-market and diversified asset allocation. We will attract more inflow of funds from the mainland and the world to Hong Kong, and continuously enrich the diversity of financial businesses in Hong Kong, such as private equity, venture capital, private bank, family office, and hedge fund, thereby amplifying the influence of Hong Kong influence on global asset and wealth management markets.

Fourthly, we will resolutely safeguard Hong Kong's financial stability and security. Over the years, with the strong support from the country, Hong Kong has successfully navigated multiple financial crises and external shocks, maintaining overall resilience in its financial system and accumulating extensive experience in preventing and defusing major risks. At the crucial moment in 1998 when Hong Kong was struggling with the impact of the Asian Financial Crisis, Mr. Zhu Rongji, the then Premier firmly declared to the whole world that the central government will resolutely safeguard the prosperity and stability of Hong Kong. Today, China is even more robust in its financial strength, with its size of foreign exchange reserves ranking safely at the top of the world, which will surely provide strong backing for the financial stability and safety of Hong Kong.

Recently, the PBOC is in close communication with the HKMA and the securities regulators of both sides. Relevant policy measures will be introduced in three key areas, namely enhancing the development of the offshore RMB market, optimizing financial market connectivity, and improving payment and settlement convenience.

In terms of enhancing the development of the offshore RMB market, firstly, we will support the HKMA in launching RMB trade financing liquidity arrangements. On the basis of the existing framework of RMB liquidity arrangements, the swap line will be used to launch new RMB trade financing liquidity arrangements, with terms of one month, three months and six months, with a total quota of RMB100 billion, aiming to provide a stable and cost-effective source of funding for RMB trade financing of commercial banks in Hong Kong.

Secondly, we will support the launch of offshore bond repo transactions under the Bond Connect. The measure will enrich the liquidity management tools for investors and enhance the appeal of RMB-denominated bond assets. Additionally, cross-border bond repo transactions will also be introduced at an opportune time.

Thirdly, we will actively support the launch of offshore RMB government bond futures in Hong Kong. The measure will play a significant role in consolidating and enhancing Hong Kong's status as an international financial center, a global risk management center and an offshore RMB business hub. Regulatory authorities from both sides are working in close cooperation to advance the preparatory work in an orderly manner.

In terms of improving the mutual access between financial markets, firstly, we will support the use of bonds under Bond Connect as qualified collateral in financial markets in Hong Kong. Previously, we announced to support overseas institutions in using bonds held under Bond Connect as margin collateral for Swap Connect transactions. The arrangement will come into effect today. Moving forward, we will support a wider use of bonds held under Bond Connect as qualified collateral in financial markets in Hong Kong.

Secondly, we will improve the operation mechanism for Southbound Trading under Bond Connect. Domestic investors will be supported in buying bonds denominated in various currencies more conveniently, and the settlement hours will be extended. Moving forward, we will expand the coverage of investors in an orderly manner and increase custodians.

In terms of facilitating payment and settlement, we will accelerate the cross-border interlinkage of fast payment systems. We will promote the interlinkage between the fast payment system of the Chinese mainland and that of Hong Kong, which will support residents of the two places in real-time cross-border remittance, thus providing safer, more efficient and more convenient cross-border payment services for economic and trading activities and personnel exchanges between the two sides. Also, we will further expand the list of participating banks offering residents of Hong Kong and Macao agency account opening witness services.

Thanks to Hong Kong's unique advantages and its industrious residents, we believe its status as an international financial center will continue to be consolidated and strengthened.

Last but not least, financial leaders around the world are welcome to invest in China's financial market, sharing together with us the development opportunities. I wish this forum a complete success!

Thank you!