

Speech of Mr. Zhou Xiaochuan at the third Sino-French Financial Forum

Distinguished Governor Christian Noyer, dear friends from the financial sector of China and France, dear guests, ladies and gentlemen,
Good morning!

Today, we're gathering at the third Sino-French Financial Forum co-hosted by the People's Bank of China (PBOC) and Banque de France. On behalf of the People's Bank of China, I would like to extend warm welcome to Governor Noyer and other guests from France, and express sincere appreciation to the supporting agencies, participating experts and scholars, as well as the organizers of this forum, Paris EUROPLACE and National Association of Financial Market Institutional Investors (NAFMII)!

Please allow me to take this opportunity to share with you my views on China's macro-economic situations and financial sector's reform and opening-up.

Since the outbreak of the global financial crisis, the global economy has been on the track of a slow and difficult recovery. Facing the complex international and domestic situations, the Chinese government has kept pursuing progress while ensuring stability. As a result, the Chinese

economy has maintained stable growth and taken a turn for the better. Major indicators currently stay in the reasonable range, adjustment of economic structure makes progress, and the quality and efficiency of economic growth has improved. The overall price level and employment status largely maintain stable.

Currently, we are implementing the sound monetary policy, and making it more targeted, flexible and forward-looking. To date, growth of the money and credit aggregates are in the reasonable range, the credit structure has been further improved, and the market interest rates have maintained basically stable.

The Chinese economy has successfully overcome enormous negative impacts and difficulties in this round of global financial crisis and is among the first to recover. Meanwhile, we also paid the price and encountered problems. Later on, the economic growth slowed down, posing a significant challenge to the making of macroeconomic policy. Through in-depth analysis and study of the statistics, we have realized that there are some trade-offs among economic growth, structural adjustment and structural optimization. Additionally, there are also some trade-offs among economic growth, energy consumption, environmental protection and environmental quality. Certainly, there are also some trade-offs between economic growth, especially the investment growth

and price stability. China has a large population and enormous employment pressure. To provide employment, it's necessary to maintain a robust economic growth to some extent. There must be a good balance among these relations. Since this year, in particular, the economic growth has moderated for a while, and we have had a lot of discussions on this issue. The Chinese government has made a clear choice: continue to maintain a proactive fiscal policy and a sound monetary policy. We seek to maintain stable economic growth and support employment creation through market-oriented reforms rather than relying on expansionary fiscal or monetary policies.

At present, these policies have produced some effects. Meanwhile, we can see some remarkable results in structural adjustment and economic rebalancing, and expect to see more effects on energy, environment and other aspects in the next few years. Obviously, the conduct of monetary policy is also based on such a guideline. This is the first subject I am addressing, about monetary policy.

Secondly, I'd like to take this opportunity to brief on China's financial reform.

The just concluded Third Plenary Session of the 18th CPC Central Committee has provided a roadmap to deepen overall reforms. Continued efforts will be made to roll out the policies and measures to deepen

financial reforms and opening up, enable market to play a decisive role in resource allocation and support the government to play an optimal part.

China has been unswervingly advancing financial reform. Financial reform is an integral part of the roadmap formulated in the Third Plenary Session to deepen overall reforms. The capability of the financial sector to allocate resources and serve the real economy will be further reinforced, and the overall strength and risk resistance capacity will be substantially improved.

In the recently published documents of the Third Plenary Session, we can see some major measures to be taken in the future financial reform. As far as the pricing is concerned, the market-based exchange rate regime will be improved, the foreign exchange market will become deeper and broader, and the floating range of Renminbi exchange rate will be expanded in an orderly manner. In other words, the supply and demand of market will play a larger role in determining the balance of the foreign exchange market. The central bank will reduce its regular intervention on the foreign exchange market.

Another important part of the market-based reform is market-based interest rate reform. Recently, institutional building is underway to support market-based interest rate pricing. On the one hand, we have spent more than a decade in gradually advancing the interest rate reform;

on the other hand, we are planning the next step to further the reform, especially the market-based deposit interest rates. For this purpose, mechanisms have to be established, including the pricing mechanism and quote mechanism. At the same time, the central bank's interest rate transmission mechanism, the transmission mechanism from policy rates to market rates, should also be optimized so as to complete the interest rate reform in the middle term.

In order to provide the market better benchmark interest rates to better price the interest rates of each business, the documents of Third Plenary Session also mention efforts to improve the government bond yield curve to reflect market supply and demand. Of course, now we already have a government bond yield curve and other similar benchmark interest rate systems, yet they need to be developed and improved to serve as a clearer benchmark for various market players.

On the basis of these reforms, the Renminbi capital account convertibility will be realized at a faster pace. To this end, we will reform the management of cross-border capital flows to facilitate enterprises to trade in financial market to invest and trade at lower costs. We will streamline administrative examination and approval process in the foreign exchange administration, and shift the focus from administrative examination and approval to monitoring and analysis, from

micro-management to macro- prudential management, and from providing a positive list to a negative list. Moreover, additional measures will be taken to facilitate the activities of foreign investors and domestic investors in both directions on the international capital market.

From the perspective of portfolio investment, China will further expand the participants of Qualified Domestic Institutional Investors (QDII) and Qualified Foreign Institutional Investors (QFII), and increase the investment quota. When the conditions are mature, we will lift quota approval procedures for QDII and QFII investors, and develop and optimize the foreign debt and capital flow management system within the framework of macro- prudential regulation.

Thirdly, in conjunction with the management on investment and market access, market access will be relaxed to enable the financial sector to provide better financial services for domestic and cross-border economic activities in a competitive market. With regard to market access, we will continue to promote reform and opening-up, accelerate the negotiation of bilateral investment treaty (BIT) with the EU and the US, shift from a positive list to a negative list, and study how to implement the pre-access national treatment, which are being tested in China (Shanghai) Pilot Free Trade Zone. All of these show that the market access will be freer and will rely more on a competitive financial sector.

In terms of the private economy, we will, under stricter regulations, permit the private sector to establish small and medium-sized financial institutions. In conclusion, the Chinese financial market will provide better services as a result of fair competition for domestic and international economic and financial activities. The above is an update for the financial reform.

The economic and financial cooperation between China and France has always been a significant and fruitful field. We have held Sino-French Financial Forum twice before, and it's the third time, which, we hope can boost the financial cooperation between two sides.

First of all, the bilateral trade between China and France is substantial. And the two are major trading partners and investment destinations for each other. In addition to direct investment, China also receives more and more portfolio investment from France. French central bank manages a portion of its assets through investment in China's inter-bank market.

China began investing in international market through QDII several years ago, including on French bond market. China's foreign exchange reserves management has always attached great importance to the Euro. We are a significant investor of French government bonds and other French bonds. Nevertheless, we believe that the non-governmental players, especially the private sector, have greater potential to tap.

Financial institutions may find plenty of opportunities in Sino-French cooperation to provide good financial services, quality economic and financial analysis for various trading and investment activities. Moreover, as the vanguard of economic and financial ties among different countries, the financial sector can provide many analyses, suggestions and forward-looking views.

We in China value the sophisticated financial market and financial system in France. Many renowned French financial institutions have lots of interactions with Chinese financial institutions and have played an important part in the development of China's financial industry and financial market. French financial institutions are important participants in China's interbank market. I believe China and France have lots of space for financial cooperation. Such cooperation is very important for China as we can learn a lot of knowledge and experience. Financial cooperation will play a greater role in bilateral exchanges and mutual development.

To conclude my speech, I wish the Forum a great success! I hope Governor Noyer and other French guests will enjoy your stay in Beijing, get to know more Chinese friends and help strengthen Sino-French cooperation. Thank you!