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# IMI Newsletter

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# Highlight

## 2021 International Monetary Forum

On July 24, the 2021 International Monetary Forum, organized by the School of Finance, Renmin University of China (RUC) and hosted by the International Monetary Institute (IMI), RUC, was successfully held in Beijing. The theme this year was “China's Financial Development in the Context of Dual Circulation”. More than 100 eminent experts and researchers from financial management departments, research institutes and the financial industry attended the forum. They were engaged in extensive discussions on four themes, namely “China’s ‘Dual Circulation’ Development Paradigm and the Internationalization of the RMB”, “Preventing and Mitigating Financial Risks and Securing Financial Security”, “ESG Facilitates the Development of Green Finance” and “The Training of Digital Finance Talents Contributes to Quality Industrial Development”.

The Opening Ceremony and the Launch of 2021 Annual Report of Renminbi Internationalization were hosted in the morning by Zhang Jie, IMI Director.

Liu Wei, President of RUC, delivered opening remarks via an online video. He pointed out that topics of great concern under the new development paradigm were as follows: how to rely on the domestic market, make use of both domestic and international resources, improve a modern financial system with high adaptability, competitiveness and benefits for all, build a new financial system with higher-level opening-up, and provide high-level financial support for the key areas and key links of the new development pattern. He hoped the guests would make good use of the International Monetary Forum as a platform to discuss and exchange views on the hot and key issues of financial development in the new paradigm, and hence provide meaningful reference and help for the solution of these issues. Finally, he wished the forum a great success.

Wang Fang, Deputy Director of IMI and Associate Dean of the School of Finance, RUC, released and interpreted the 2021 Annual Report of Renminbi Internationalization: Dual Circulation Development Paradigm and Currency Internationalization. She pointed out that in the face of shocks from the COVID-19 pandemic and a tense external environment, the RMB was used internationally more significantly year-on-year and steadily ranked among the major international currencies. Accelerating the evolution of the new “dual circulation” development paradigm and promoting quality development will enhance the hard and soft power of the RMB in all aspects and create a major historical opportunity for RMB internationalization to reach a new level. The dual circulation focuses on two key issues of enhancing the ability of supply to create demand and improving the level of national governance domestically, and reinventing the new advantages of international economic cooperation and competition for Chinese companies and institutions through multiple forms of trade innovation internationally; at the same time giving full play to actively promoting the Belt and Road

Initiative and the offshore RMB market for the sake of the domestic and international circulation.

Later on, Li Yang, Member of Academic Committee, CASS and Chairman of Council, National Institution for Finance & Development, Wang Zhaoxing, Former Vice Chairman of China Banking and Insurance Regulatory Commission (CBIRC), Liu Jun, Deputy Secretary of CPC and President of Bank of Communications, Liu Yuanchun, Vice President of RUC, and Wu Xiaoqi, Dean of Academy of China Capital Market, RUC, respectively delivered keynote speeches.

Li Yang delivered a keynote speech entitled “New Stage of Economic Development, New Tasks of Financial Reform”. He put forward six views on the next step of financial reform. First, to promote the transformation of commercial banks and the reform of pension mechanisms, to promote the insurance industry and various non-banking institutions, and to promote the four finances (commercial finance, development finance, policy finance and cooperative finance); second, to build a capital market with Chinese characteristics in which financial institutions play an important role, allowing banks to gradually open their balance sheets and deregulate financial institutions; third, to adjust the structure of the debt market and risks; fourth, to promote the RMB internationalization, emphasizing the need for financial assets suitable for non-residents to hold; fifth, to strengthen financial infrastructure development; sixth, to vigorously develop financial technology.

Wang Zhaoxing delivered a keynote speech on the topic of “Views on International Financial Regulatory Rules”. He pointed out that the Basel Accords is the rule that must be referred to and studied in internationalization and international competition. Basel regulatory rules are not set in stone, and China’s financial regulatory authorities are not copying all of them, but focusing on and strengthening the weaknesses and shortcomings of the regulatory system, and guarding the bottom line of no systemic risk. First, the Basel Accords places greater emphasis on risk-adjusted capital structure with expanding risk coverage, on corporate governance, information disclosure, and regulatory independence, and on emerging risks. Second, the rules set by the Basel Committee are only a minimum standard. When formulating domestic rules, China has self-adjusted its core tier 1 capital adequacy ratio, leverage ratio, provisioning, treatment of high-risk financial institutions and high-risk institutions, etc.

Liu Jun delivered a keynote speech with the title of “RMB Internationalization Rethinking: New Dynamics, New Fields and New Mission”. He pointed out that we had entered a new stage of development, and that with a new development paradigm and new development concepts, a new RMB internationalization pattern should also be shaped. Today, technology has become a major indicator of comprehensive national power, and currency internationalization will face new opportunities and challenges in the era of digital economy, in the context of which, the digital RMB will become the new fulcrum of RMB internationalization, the RMB carbon financial market will become an important vehicle for RMB internationalization, and financial institutions need to give full play to their strengths in technology, scenarios and data, and take on new missions. As we enter the period of “new development stage, new development philosophy, and new development paradigm”, China needs to fully understand the new dynamics and areas of RMB internationalization, and the



new mission of financial institutions, so as to help advance RMB internationalization.

Liu Yuanchun delivered a keynote speech on the topic of “The Current Round of Global Economic Recovery and Financial Reversal”. He pointed out that in the context of accelerating recovery, the key topic for us to track and study comprehensively is the path of debt reduction and risk release. First, policy adjustment will face the double pressure of the current recovery acceleration and future pandemic uncertainty. Second, the cascade between low interest rates and high debt will have an important impact on the sustainability of governments’ debt. Third, whether debt levels will rise further in the future deserves attention. Fourth, there is a need to deepen understanding of potential shocks delivered by financial debt risks, and their scale and destructive power. Fifth, we need to be on high alert for a repeat of the 2013 US taper tantrum.

Wu Xiaoqiu delivered his keynote speech via a video, pointing out that the “dual circulation” development paradigm reflects an important transformation of China’s economic development strategy. In the “dual circulation” development strategy, how finance serves the real economy is an issue that must be focused on. First, it is necessary to build an ecologically sound capital market system based on the capital market, and to complete the industrial transformation in the “dual circulation” development strategy and take the road of high-quality development by constructing a new financial industry. Second, we should focus on the future and establish a modern financial concept, and form a new financial industry and a new capital industry based on capital markets. It is important to see that the functional characteristics of this new financial industry is focused on the future. Third, the registration system reform should be further improved. The registration system reform is of great significance and we have made significant progress. We should seriously summarize the experience and problems of the registration system in the past two years.

Lastly, Zhang Jie concluded by pointing out that in the past four decades, China’s capital market has been supporting robust growth of China’s economy and hence fulfilled its macro responsibility remarkably. China’s capital market had its unique features and is bound to retain such features. In terms of the internationalization of the RMB, theoretically speaking, the RMB appears to have to follow the paths of the GBP and the USD to become a currency of a major country. From a historical perspective, however, the RMB will not become a major currency unless it blazes a trail. As for the economic policy toolkit, the reason why economic policies adopted by governments during the pandemic were ineffective is that the pandemic took a heavy toll on “people” but there was a lack of policy tools used to address problems pertinent to “people”. Economics and finance with Chinese characteristics will not worthy of the name unless they draw inspirations from China’s cultural traditions and tell China’s stories about money and finance.

In the afternoon, four parallel forums were held.

Parallel Forum One was held on the theme “China’s ‘Dual Circulation’ Development Paradigm and the Internationalization of the RMB” and was moderated by Wang Fang. Wang Yi, Vice President of China Everbright Group, Guo Jianwei, Editor-in-Chief of China Financial Publishing House and Ding Zhijie, Director of Research Center of Foreign Exchange, SAFE, respectively delivered keynote speeches. Over ten guests conducted robust discussions on two roundtable themes, namely “RMB Internationalization Against the Background of China’s ‘Dual Circulation’ Development Paradigm” and “The Evolution of the

International Financial Landscape in the Post-Pandemic Era”. These guests include Wei Benhua, Former Deputy Administrator of SAFE and Former Director of ASEAN+3 Macroeconomic Research Office (AMRO); Fang Xin, President of PBoC Haikou Central Sub-Branch; Chen Weidong, Dean of BoC Academy; Xiao Geng, Director of Institute of Policy and Practice, Shenzhen Finance Institute, CUHK and Chairman of Hong Kong Institution for International Finance; Zhao Xijun, Co-Dean of Academy of China Capital Market, RUC; E Zhihuan, Chief Economist at BoC (Hong Kong); Ding Jianping, Deputy Director of Shanghai Institute of International Finance Center and Director of Research Center for Modern Finance, Shanghai University of Finance and Economics; Zhu Mengnan, Deputy Dean of School of Economics, Xiamen University; Fu Chenggang, China’s Chief Representative at Abu Dhabi International Financial Center and the Financial Services Regulatory Authority; Tu Yonghong, Deputy Director of IMI; He Qing, Deputy Director of Department of Money and Finance, School of Finance, RUC and (temporary) Assistant to President of Guizhou University of Finance and Economics; and Qian Zongxin, Deputy Secretary of CPC, School of Finance, RUC.

Parallel Forum Two was held on the theme “Preventing and Mitigating Financial Risks and Securing Financial Security”. This forum was a private session and was presided by Ben Shenglin, Co-director of IMI and Dean of Frontier Institute of Regulation and Supervision Technology. Wang Xin, Administrator of PBoC Research Bureau, Wang Guogang, Professor of School of Finance, RUC and Member of Academic Committee, CASS, and Fan Xiwen, Chief Risk Officer at China-LAC Cooperation Fund, respectively delivered keynote speeches. A few guests participated in the roundtable discussion. The guests include Hu Xuehao, Inspector at Department of Finance, MOF and Director of Operation and Evaluation Center for State-owned Financial Assets, MOF; Zhou Daoxu, Director of Research Center for Finance Security, Institute for Fintech Research, Tsinghua University; Qu Qiang, Director of China Financial Policy Research Center, RUC; Chen Zhongyang, Director of Financial Risk Management Office, RUC; Peng Hongfeng, Dean of School of Finance, Shandong University of Finance and Economics; Shen Jianguang, Vice President at JD.com and Chief Economist at JD Digits; Lu Weiqing, Head of Anti-Financial Crime Business, QI-ANXIN; and Sun Lilin, founder and CEO of Matrix Elements.

Parallel Forum Three was held on the theme “ESG Facilitates the Development of Green Finance” and was moderated by Lan Hong, Deputy Director of Eco-Finance Research Center, RUC. Cao Tong, Co-Chairman of IMI Council and Chairman of Board, Hande Fintech Holdings, made opening remarks. Zhou Qiuyue, Chief Economist at ICBC and Dean of Modern Finance Academy, ICBC, Ma Xianfeng, Deputy Dean of China Institute of Finance and Capital Markets, CSRC, and Wang Wen, Executive Dean of Chongyang Institute for Financial Studies, RUC, delivered keynote speeches. Zhou Qiuyue, Ma Xianfeng, Guo Jianwei, Cao Tong, Wang Wen, Lan Hong and Zhang Qiang, Executive President of Shenzhen Lead Search Inc., jointly released Standards for Green Finance in the Lead Accumulator Industry. Several guests were engaged in the roundtable discussion on the theme “Transition and Challenges in the Context of China’s ‘30·60’ decarbonization goals”. These guests included An Guojun, Associate Research Fellow at Institute of Finance and Banking, CASS; Chen Yaqin, Director of Product Innovation, Department of Green Finance, Industrial



Bank; Guo Jianwei; Meng Meng, Secretary General of Green Finance Committee, Guangdong Finance Society and General Manager at Guangzhou Carbon Trading Center Inc.; Wu Aizheng, Director of Renewable Resources Institute, Tianjin University of Commerce and Dean of Guangzhou Institute for Joint Regeneration; and Xu Guangqing, Director of Department of Environmental Economics, School of Environment & Natural Resources, RUC.

Parallel Forum Four was held on the theme “The Training of Digital Finance Talents Contributes to Quality Industrial Development” and was moderated by Song Ke, IMI Deputy Director and Deputy Secretary of CPC, School of Finance, RUC. Yang Hong, Secretary General of Fintech Committee, China Society for Finance and Banking and Former Inspector at PBoC Technology Department, and Gao Feng, Chief Information Officer at China Banking Association, delivered keynote speeches. Yang Tao, Member of IMI Academic Committee, Member of CFT50 Academic Committee, and Deputy Director of National Institution for Finance & Development, made opening remarks about the 2021 Report on the Training and Development of China’s Fintech Talents. A number of guests held detailed discussions on two themes, namely “The Training of Digital Finance Talents and Quality Development” and “Fintech Talents and City Competitiveness”. These guests included Yan Wentao, IMI Research Fellow, CFT50 Member and President of CCX Credit Technology; Zhang Lin, General Manager at Department of Educational Development, BoC; Xi Hui, Deputy Director of Institute for IT Application in Finance; Ma Hongjie, Vice President of DCITS; Cai Mingjie, Co-General Manager at Department of Digital Finance, China Everbright Bank; Zhu Taihui, IMI Research Fellow and Research Director of Jingdong Digital Technology Research Institute; Song Lu, CFT50 Youth Researcher and Assistant to Dean of National Academy of Development and Strategy, RUC; Liu Yang, Director of Fintech, Beijing Local Financial Supervision and Administration; Niu Zhongyang, Deputy Director of Chengdu Financial Development and Promotion Center; Du Xiaoyu, IMI Research Fellow and Secretary General of Tencent Research Institute; Liu Yong, Member of CFT50 Academic Committee and Dean of Zhongguancun Internet Finance Institute, and Lan Guoyu, IMI Research Fellow and Chief Economist at Dahua Intelligent Technology Co., Ltd. Lastly, Yang Dong, Executive Dean of Blockchain Academy, RUC, gave a presentation on the training of blockchain experts.



## Research

### Roundtable on Money and Finance

#### **Editor's Note:**

*Roundtable on Money and Finance is IMI's signature quarterly forum held in the second Saturday afternoon of each March, June, September and the next January respectively (adjusted for national holidays and special occasions). The forum invites financial experts and leaders from home and abroad, having featured keynote speakers including: Wei Jianguo, former vice minister of the Ministry of Commerce; Su Ning and Ma Delun, former deputy governor of PBoC; Chen Yulu, deputy governor of PBoC; Pan Gongsheng, deputy governor of PBoC and administrator of SAFE; Robert A. Mundell, professor of Columbia University; Edmond Alphandery, former French minister of finance; Patrick Honohan, former governor of Central Bank of Ireland; Yves Mersch, member of the Executive Board of the European Central Bank. Currently, the forum has become a significant platform for academic exchanges in the macro finance, and has cast great influence among financial researchers and practitioners.*

#### **Roundtable on Money and Finance (Spring 2021): Finance Supports the Start of the 14th Five-Year Plan**

On March 31, the Roundtable on Money and Finance (Spring 2021) was successfully held in Shanghai. The conference was jointly organized by IMI and International Business School of Zhejiang University (ZIBS) and China Financial Information Centre (CFIC), and co-organized by the Academy of Internet Finance, Zhejiang University (AIF). The theme of this symposium is "Finance supports the start of the 14th Five-Year Plan". It is the first time that the Roundtable on Money and Finance was held in the Yangtze River Delta.

The symposium was chaired by Ben Shenglin, Co-director of IMI and Dean of ZIBS and AIF. Opening remarks were delivered respectively by He Lianzhen, Secretary of the CPC Committee and Vice President of Zhejiang University, Cao Tong, Co-Chairman of Council of IMI and Chairman of Board at Hande Fintech Holding, and Ye Guobiao, Secretary of the CPC Committee of CFIC and Chairman of Board, CFIC and Shanghai Petroleum and Natural Gas Exchange.

He Lianzhen delivered a speech on behalf of Zhejiang University. She mentioned that according to the Global FinTech Development Report2020 published by the research team



from Zhejiang University, Shanghai leads the world in FinTech. Zhejiang University strives to build itself into a world-class university with its roots in China, and hence will deepen strategic cooperation with Shanghai for major opportunities. Aiming for better quality, higher excellence, more respect, and bigger dreams and guided by the 14th Five-Year Plan, Zhejiang University will take new measures and shoulder greater responsibilities in serving the country and fulfilling its mission.

Cao Tong expressed a warm welcome and sincere gratitude on behalf of IMI to all the guests. He emphasized that only alertness to danger will ensure safety. We think highly of China's effective response to the Covid-19 pandemic, but we should also be aware of the difficulties and challenges facing our economy. At the beginning of the 14th Five-Year Plan period, we should step up efforts to build a new "dual circulation" development paradigm, follow market principles and the rule of law and improve the modern financial system that is highly adaptive, competitive and inclusive. We should also build a new system for higher-level open finance, make good use of international financial resources to advance quality development and modernization in China, and provide high-level financial support for key areas of the new development paradigm. Mr. Cao hoped that the Roundtable on Money and Finance on the theme "Finance supports the start of the 14th Five-Year Plan" can provide insights into how to optimize China's financial structure and offer suggestions for the formulation and implementation of China's international financial strategies.

After the opening remarks, a ceremony was conducted to celebrate the first Roundtable on Money and Finance organized in the Yangtze River delta. All the attendees extended a rousing welcome and high expectations to it. Moreover, ZIBS's Teaching and Practice Base in Shanghai was inaugurated and a ceremony was held to launch the new book, *Prepare for potential problems in a VUCA world: Report on the Internationalization of the Global Banking Industry 2020*.

Afterwards, keynote speeches were separately delivered by Liu Jun, Member of IMI Academic Committee and President of Bank of Communications; Tu Guangshao, Former Vice-Mayor of Shanghai; Jiao Jinpu, Member of IMI Academic Committee and Chairman of Shanghai Gold Exchange; Guan Tao, Member of IMI Academic Committee and Global Chief Economist at BOC International; and Jin Yu, Member of IMI Academic Committee and Chairman of Board, Bank of Shanghai.

Liu Jun made a presentation titled "Banks, Banking, and Building a Multi-tiered Capital Market". He analyzed the root and the current status of banks and the outlook for the banking industry in a new era. He pointed out that any e-commerce company that does not aspire to be a bank is not a good tech company, and that banks' competitors may not be banks but rather tech companies and even a technology. The intangible economy is quickly rising, and technologies will reshape the industrial landscape. China's financial sector has evolved from banks-driven into market-led, from indirect financing-dominated to a balance between indirect and direct financing. Currently China still lags far behind developed economies in terms of capital market development and the scale of direct financing, and therefore there is substantial room for future development. He contended that banks will build and participate in the capital market. Traditional banks served as financial intermediaries by receiving deposits and lending loans to companies while modern banks deeply participate in the capital market by managing deposits and integrating investment and lending.



Tu Guangshao addressed the meeting on the topic of “New Development Stage and Financial Service Domains.” He noticed that social and economic development requires high attention on financial service domains, which demonstrate deepening functions of financial services and the result of financial reform, opening up and innovation. There are eight financial service domains, namely fintech, green finance, big data finance, inclusive finance, advanced manufacturing industry finance, cross-border finance, principal assets finance and pension finance. They’re the focus of financial support for the 14th Five-Year Plan. They bring about opportunities along with challenges. The government needs to build a cooperative environment for financial services to the real economy and social and economic growth with the drive of reform and opening up, through financial innovation. The financial institutions will be underpinned by better service capabilities with supporting measures. Thus, the eight domains of financial services will be intensified and improved.

Jiao Jinpu delivered a speech of “Financial Development with Chinese characteristics.” From a data perspective, he shared his understanding of General Secretary Xi Jinping’s statements on financial sectors. He pointed out “two imbalances and two limitations” in domestic financial sectors. The first one is the deficient financial support for micro and small enterprises and private businesses, the other one lies in relatively low direct financing ratio in financing structure. The two limitations refer to the inadequate say of China in international financial system and the relatively weak leadership of local Party committee in local finance.

Guan Tao delivered a speech titled “Theoretical Issues in Internationalization of Currency.” He mentioned that the openness of financial services is only part of the story in financial openness. The key is opening the financial products and tools. The more open financial sectors also mean more difficult financial management and supervision and the difficulty will rise geometrically. It is an important lesson that immature financial openness often ends up with crisis. The procyclicality and overshoot of cross-border capital flows make it harder to match with reform and opening up. The arrangements concerned financial openness in the 14th Five-Year Plan are more prudent than market expectations, which shows sober and conservative estimate of the central government about domestic and international dynamics.

Jin Yu discussed liquidity management and constraints in the banking sector. He believed that there are three key points in supporting finance for the 14th Five-Year Plan. The first is to shakeoff the constrains from debt leverage and go beyond equity financing; the second is to turn more indirect financing from savings into direct financing of long-term investment; the third is to cut carbon dioxide emissions and build real green finance with Chinese characteristics.

In the roundtable discussion, Zhao Xijun, Co-Dean, Academy of China Capital Market at Renmin University, Yang Zaiping, Secretary General, Asian Financial Cooperation Association and former Executive Vice President, China Banking Association, Ding Jianping, Vice President of SIFC and Director of the Modern Finance Research Center, Shanghai University of Finance and Economics, Huang Jinlao, Chairman of Jiangsu Suning Bank Co., Ltd., Pei Yigen, former Vice President of Citibank (China) Co., Ltd., Chen Qiwei, Chairman of Asia Business Corporation and Director of Institute of Fintech Research, East China Normal University, Song Ke, Deputy Director of IMI and Associate Professor of Renmin



University, and Wang Jian, Chief Analyst of Banking, Guosen Securities Economic Institute commented on the speeches above and shared their valuable insights into how “finance supports the start of the 14th Five-Year Plan” based on their own research.

## Macro-Finance Salon

### Editor's Note:

*Macro-Finance Salon is a high-level academic salon initiated by IMI and Department of Money and Banking of School of Finance at RUC. The salon aims at promoting the study and practice of Macro-Finance, as well as its disciplinary program, while carrying out in-depth research on Macro-Finance theory, policy and strategy. The concept of "Macro-Finance" stems from Professor Huang Da's fundamental idea of integrating macro and micro financial theory, which systematically regards finance and real economy as a whole. In the book of "General Theory of Macro-Finance", Chen Yulu, Deputy Governor of PBoC, demonstrates the fundamental connotation and methodology of Macro-Finance, laying theoretical and empirical foundation for Macro-Finance framework, which facilitates long-term economic growth and stronger national competitiveness.*

### **Macro-Finance Salon (No. 158): Challenges to China's Monetary Policy in the Post-Pandemic Era**

On March 27, Macro-Finance Salon (No. 158) was held online. It was the first webinar for the Two Sessions online series. The seminar is with the title of "Challenges to China's Monetary Policy in the Post-Pandemic Era".

Xia Le, Chief Economist for Asia at BBVA Research delivered a keynote speech on the topic. Chen Weidong, Director of Research Institute of Bank of China; Guan Tao, Chief Global Economist of BOC International (China); Wang Yongli, Chief Economist of Shenzhen Neptunus Group and former VP of Bank of China; and Ma Yong, Professor of SFRUC joined the webinar as panelists. The webinar was presided over by Wang Fang, deputy director of IMI and Associate Dean of School of Finance at RUC.

In the keynote speech, Mr. Xia Le discussed the current situation and challenges of China's monetary policy on six aspects: The normalization of monetary policy adopted during the pandemic; Improve interest rate corridor and monetary transmission mechanism; The role of monetary policy for financial stability; The relationship between monetary policy and financial policy; How to incorporate carbon neutrality and environmental protection standards into monetary policy; The influence of RMB internationalization and digital currency on monetary policy. He also addressed other issues, such as the condition to incorporate asset prices into monetary policy and the necessity to enhance monetary policy independence.

After the keynote speech came the discussion session. Mr. Chen Weidong analyzed the impacts of ultra-loose fiscal and monetary policies to the future. He also expressed his views on the carbon neutrality mentioned in the keynote speech. He believed that the development of green economy will be significance to the future's regulation of monetary policy. Mr. Guan



Tao pointed out that the monetary policy communication is a major challenge in the post-pandemic era. He also shared his views on how the recent US rate rise impacts China. Mr. Wang Yongli considered the tendency and control of China's monetary policy are not just realistic and practical problems, but also theoretical ones. He discussed on how to set the orientation and target for monetary policy from a theoretical standpoint. He also raised the issue on the current monetary policy. Professor Ma expressed his views and thoughts on two issues, the direction of monetary policy and the challenges of the entire monetary policy framework.

Finally, Professor Wang concluded that the monetary policy is developing rapidly. The practice has been challenging the theory, so the theory must also advance constantly. The webinar was a success. Every panelist joined to the discussion and brought profound insights to the topic.

### **Macro-Finance Salon (No .159): China's Economy and Capital Market in the 14th Five-Year Plan Period**

On April 8, the Macro-Finance Salon (No. 159) was held online. This is the second salon under the series of "Learn from the spirit of the Two Sessions--finance supports the start of the 14th Five-Year Plan". This salon was themed China's economy and capital market in the 14th Five-Year Plan period. Participating the salon were Zhong Zhengsheng, Chief Economist and Director of Research Institute of Ping An Securities, who delivered the keynote speech, Fan Xiwen, Chief Risk Officer of the China-Latin America Cooperation Fund, Guan Qingyou, Director and Chief Economist of Rushi Finance Research Institute, Liu Qingsong, Council Member of Securities Association of China, and Wang Changyun, Dean of Hanqing Advanced Institute of Economics and Finance at RUC. The salon was chaired by Zhao Xijun, Co-Dean, Academy of China Capital Market, RUC.

First of all, Dr. Zhong Zhengsheng released the report themed New Pattern, New Drivers—— China's Economy and Capital Market in the 14th Five-Year Plan Period. The report focuses on the link between China's economy and capital market from three aspects:

- I. New changes in China's economy;
- II. Long-term prospects for RMB assets;
- III. The development trend of China's capital market.

The key takeaways of the report are as follows:

#### I. New Changes in China's Economy

1. With the pandemic spreading across the globe, China's economy took the lead in achieving a V-shaped rebound.

2. The first half of 2021 has seen China's economy continuing to be export-driven. The degrees to which the economy recovers in countries are affected by the progress of vaccination. Economic recovery in the European countries and the US will pick up to support China's exports; Countries where the progress of vaccination is significantly lagging behind are expected to seize China's export market share after Q3. China's export growth is expected to decline significantly after June, as the global economic recovery peaked in Q1 and Q2 of 2021.

3. The real estate industry chain remains high prosperity. With the real estate sales growth accelerating in 2020, despite further tightening of real estate supervision, real estate investment still shows good resilience.

4. The growth momentum in manufacturing investment has increased. China's manufacturing sector is at the start of a new round of capital expenditure (CapEx) cycle, with industrial capacity utilization climbing to a high level in Q4 last year, further strengthening the logic of capital expenditure start-up. It is expected that the high prosperity in export to last till mid-2021 and the targeted support policies in the manufacturing industry will also bring some support to manufacturing investment.

5. Consumption is a weak link in China's economy. Consumption remains a weak link in China's economy, and there is a clear gap between the residents' income growth before and after the pandemic, which increases preventive savings in China. How long it takes to return to normal in the later period determines the future consumption expansion.

6. China faces mainly import-type inflationary pressures. Large-scale fiscal stimulus and infrastructure projects by the US, coupled with the continued damage to commodity supply as a result of the pandemic, have led to a surge in international commodity prices. China's supply-side structural reform advances, catalyzing the rise in steel, coal and some other commodity prices. The price rise in industrial products has a different impact on the entire supply chain than when the price of raw materials rises too fast, which may increase the production and operation risks in the middle- and lower-reach enterprises.

7. China's economic growth momentum will gradually peak. After four quarters of post-pandemic recovery, China's economic growth is close to peaking in terms of quarter-on-quarter growth. The export driver for the Chinese industry is concentrated in the equipment manufacturing industry in the middle reaches, for whom, however, the growth rate of inventory of finished products has been at a high level, thus a limited space for replenishing inventory. Once the export driver weakens, the turning point of quarter-on-quarter growth may soon follow.

8. The fiscal and monetary policies are moving towards normalization. Monetary policies this year will be a combination of "credit stabilization + strict supervision", with special attention paid to the progress and strength of "credit tightening". The path to fiscal normalization will be slower than expected.

## II. Discussion on the Long-term Prospects of RMB assets

1. Emerging markets are under the pressure of the "returning dollars". The upward peak of US bond yields is forecast to be around 2.5% before 2023, and the second half of 2021 is expected to see the next upward movement. The US debt interest rates will show a slower upward movement, leading to a weakened marginal impact on US stock valuations. The current US stocks, compared to the US debt, remains a high performance and price ratio, to which the one-year RMB assets may be inferior.

2. Medium-and long-term RMB assets remain attractive. The reasons are in three aspects: (1) Compared with those of the major developed economies, RMB assets has an income advantage, attracting the active allocation of global assets. (2) US stocks face adjustment risks in the medium and long term. (3) Adding RMB assets to the portfolio is a good strategy.



3. The 14th Five-Year Plan attaches great importance to high-quality development and releases a number of policy dividends. In the 14th Five-Year Plan, two relative growth targets are mentioned: First, “the growth of labor productivity is higher than the growth of GDP”; Second, “the growth of per capita disposable income of residents is basically synchronized with the growth of GDP”. At the same time, five policy signals are released: (1) stimulating the vitality of the market players;(2) innovation-driven development;(3) implementing the Rural Revitalization Strategy across-the-board;(4) perfecting the New Urbanization Strategy;(5) implementing a high-level Opening-up Strategy;

### III. Discussion on the Development Trend of China’s Capital Market

The main mission of the capital market in the new development stage is market-oriented resource allocation and incentive and restraint mechanism. For market volatility, citing President Yi Huiman, as long as there is no excessive leverage, there will be no big deal, and the key is to have a reasonable capital structure. At present, the registration system reform in China has achieved the stage results featuring the progress made from 2019 SSE Star Market pilot registration system to 2020 GEM registration system promotion. The CSRC has strengthened the control and supervision in the registration link on the quality of the examination by the exchanges, offering conditions, and information disclosure. The IPO progress also shows the regulatory care for the stock market

In the future, we should promote the institutional opening up of the capital market. Hot money moving extremely rapidly in and out of any market can be harm to the healthy development, which is to be strictly regulated. Last March, the collapse in US dollar financing caused a huge shock in global financial markets. Compared with emerging markets, China’s stocks fell narrowly and bond markets largely did not see net outflow. It can be seen that China’s capital market has the ability to resist risks and extreme market fluctuations. Under such circumstances, China should adhere to the principle of self-development, “What is important is to do our own things well”.

### **Macro-Finance Salon (No. 160): Developing Green Finance to Boost Carbon Neutrality**

On April 17, the Macro-Finance Salon (No. 160) was held online, which was the third session under the series of “Learn from the spirit of the Two Sessions--finance supports the start of the 14th Five-Year Plan”. Lan Hong, deputy director of the Ecological Financial Research Center and professor of School of Environment, RUC, delivered a keynote presentation entitled Developing Green Finance to Boost Carbon Neutrality. Chen Shiyi, standing vice president of Anhui University, Guo Jianwei, editor-in-chief of China Financial Publishing House, Mei Dwen, president of Beijing Environment Exchange, Sun Mingchun, chief economist of Haitong International Securities Group Limited, and Yin Hong, associate dean of Modern Finance Research Institute of ICBC, made comments on the presentation. The salon was chaired by Zhang Jie, director of IMI.

In the keynote presentation, Prof. Lan illustrated four parts: climate governance and economic development, carbon emissions in China, the significance of green finance to environmental projects, and using carbon neutrality to drive the economy.

The main ideas are as follows:

First, with regard to climate governance and economic development, Prof. Lan argued



that global climate change has been a great challenge for the sustainable development of human beings. It is a public good in itself and thus should be dealt with by public finance. However, as current international organizations lack public finance services, green finance is needed to boost overall governance for global climate change.

Second, that the industrial sector is a major source for carbon emissions in China makes it more difficult to reduce carbon emissions. As fossil energy is in shortage, solving energy crisis and climate change issues are closely related. Sustainable economic development cannot be made possible without a new energy system. Hence, China urgently needs green finance for energy transformation and climate change governance.

Third, when it comes to environmental projects, Prof. Lan stated that they have long payback periods and little collateral for loans and are often underfunded, so they need to be funded by green project financing, green financial leasing, green asset securitization, carbon fund and other approaches. In addition, as public green projects can be monopolistic, finance is needed to manage risks in technology development while ensuring profitability.

Fourth, Prof. Lan held that building regimes is the key to future development. She took Europe and the US as examples, arguing that China should carefully design macro regimes and frameworks for green finance. Policy and market systems are devised under those regimes to enable carbon neutrality to become a new driver of economic development.

By analyzing and measuring carbon emission targets, vice president Mr. Chen proposed his ideas about transformation to lower-carbon energy mix and greener economic structure in the future. Mr. Guo shared the following opinions about the theme. First, as emissions are mobile and cannot be kept out of borders, more fields have to get involved to achieve carbon neutrality. It is necessary to engage all financial institutions to develop co-governance of green finance. Second, carbon neutrality is a public product and the government should be part of it through financial means. The government should also find ways to internalize externalities. Therefore, to accomplish 30-60 targets in theory and in policy, green finance and other financial means are required for effective cooperation. Third, based on Prof. Lan's presentation, Mr. Guo reflected upon approaches and frameworks for carbon neutrality and proposed three development pathways. As regards to the theme, Mr. Mei analyzed the unprecedented challenge, the rare opportunity and the approach -- carbon finance. As someone who knows investment banking and is a market participant, Mr. Sun illustrated the significance of carbon trade market. He also offered suggestions for improving green bond incentives, highlighting the importance of carbon trade market. Ms. Yin discussed the opportunities, challenges and possible contributions for commercial banks to meet carbon neutrality targets.

## **Macro-finance Salon (No. 161): Analysis of the International Capital Market Situation**

On May 11, Macro-finance Salon (No. 161), the 4th session of the series entitled "Finance Propels the Opening of the Fourteenth Five-Year Plan: Implementing the Principles of the Two Sessions", was successfully held through video conferencing. It was co-hosted by the International Monetary Institute (IMI), Renmin University of China, the Monetary and Finance Department of the School of Finance, Renmin University of China, and China



Financial Policy Research Center. Qian Zongxin, Deputy Secretary of CPC, Associate Professor, School of Finance, RUC delivered a report named "Analysis of the International Capital Market Situation". The conference was presided over by Tu Yonghong, Deputy Director of IMI, and Professor, School of Finance, RUC, and participating members included E Zhihuan, Chief Economist, Bank of China (Hong Kong), Guan Tao, global chief economist of BOC Securities, Wang Wei, Managing Director of Bank of China International, and Executive Vice President of Hong Kong Institute for International Finance, and Zhong Hong, Associate Dean, Academy of Bank of China and Executive Deputy Editor-in-Chief, Studies of International Finance.

First of all, Professor Qian Zongxin delivered a keynote report entitled "Analysis of the International Capital Market Situation". The main focus of the report is the US macroeconomic situation, the US capital market situation, the European macroeconomic situation and the European capital market situation.

The core message of the report is as follows:

First, the overall macro-economic situation of US exceeded expectations, which is mainly reflected in the fact that the actual GDP growth is better than expected. At the same time, professional economists in the US have better expectations of macro economy than before, and their outlook on the economic situation has improved. Besides, inflation expectations have increased, but the risks of inflation are not high, and the momentum of economic recovery has enhanced. However, the employment rate is still not optimistic, and the US monetary policy environment will continue to be loose in the short term.

Second, stocks, real estate and treasury bond occupy the US capital market. In terms of growth rate, the stock market, high-interest corporate bonds, and the real estate market have seen the most dramatic growth in scale. Long-term Treasury bond yields have risen, but are still not high, and the liquidity of treasury bond market is recovering; corporate bond market risk appetite is strengthening; in the stock market, the current valuation of the S&P 500 is relatively high, but the risk appetite of the US stock market is still close to the median level in history; the valuations of the US real estate market are increasing, the prices of the real estate market have increased dramatically in the past year, and the leverage rate is falling.

Third, concerning the overall situation in Europe, economic growth is lower than expected, so the expectations of recovery growth are delayed, and inflation expectations rose sharply, but the risk of inflation is relatively small. However, macroeconomic performance has great heterogeneity in the Eurozone and the EU, which is mainly reflected in the unemployment rate, macro leverage ratio, and sovereign risk.

Fourth, European stock market is recovering. Volatility continues to decline, valuation risk is not obvious, and real estate market is overvalued. Globally, Japan has the highest systemic risk. Since the pandemic, the global total systemic risk has been declining, and the geopolitical risk is at a low level.

During the seminar, the guests conducted discussions on the situation of the international capital market, the impact of capital flows in emerging markets, cross-border capital management, and the risks and responses faced by emerging economies in the context of "shrinking panic".

### **Macro-Financial Salon (No. 162): Causes for Increasing Local Government Debt and**

## **Risk Prevention**

On May 17th, the fifth session of the series entitled “Finance Propels the Opening of the Fourteenth Five-Year Plan: Implementing the Principles of the Two Sessions”, an individual event of the Financial Salon, was successfully held through video conferencing. It was jointly organized by the Institute of International Monetary Studies of Renmin University of China and the Department of Monetary Finance of Renmin University of China. Lei Chengyao, Director of RUC’s Institute of Chinese Debt Research and professor at the Department of Fiscal and Finance, delivered a report entitled “Causes for Increasing Local Government Debt and Risk Prevention”.

The report received comments from:

Wei Gejun, Director of the Shaanxi Branch of the People’s Bank of China and Director of the State Administration Of Foreign Exchange;

Xiao Geng, professor Of Financial Practice of HSBC Business School of Peking University and President of Hong Kong Institute for International Finance;

Zhangming, Vice Director of The National Financial and Development Laboratory and Deputy Director of The Institute of Finance of the Chinese Academy of Social Sciences; and

Mao Jie, Vice Dean of The School of International Economics and Trade of The University of International Business and Economics.

The salon was moderated by Guan Wei, Executive Director of the Credit Management Research Center of the Renmin University of China.

Professor Lei Chengyao first delivered a thematic report entitled “Causes, Risks and Prevention of Rising Local Government Debt”. His key points are as follows:

In 2021, the central government is highly concerned about the risk of high local government debt. The 14th Five-Year Development Plan has made “resolving the hidden debt problems of local governments” a key objective for the next five years.

China's local government debt management policies can be divided into three stages: tentative management from 2014 to 2016; stringent management from 2017 to 2019; loosening up under the impact of COVID-19 in 2020; and a return to tight controls in 2021.

There are two main causes for local government debt. First, after the tax-sharing reform in 1994, there has been a misalignment between the administrative and the fiscal power for the local governments in relation to the central government. Local governments are short of fiscal resources for their administrative responsibilities. Second, local governments play a role in the economy. Therefore, government investment creates a demand gap for funds.

Local government debt is of three kinds: local government bonds, local hidden debt (including quasi-municipal bonds, or chengtouzhai) and contingent debt. Debt-to-GDP ratio,



debt ratio and debt service ratio are often used indicators in studying local government debt. By the end of 2020, the gross debt-to-GDP ratio of China's local government was 45.8%, the debt ratio 97% and the debt service ratio was slightly more than 10%. All lower than the international red line. The overall risk of local debt in China is on the whole manageable, though structural conflicts are prominent. The risk of local government bonds debt is controllable and within a safe range, but the risk of hidden debt receives widespread concerns.

Measures to relieve the risk of local government debt mainly include:

- 1) reforming the fiscal and taxation system to redress the mismatch between the local government's ever bigger expenditure responsibilities and their lack of fiscal powers;
- 2) more stringent debt management and restriction measures on local governments;
- 3) holding individuals accountable for illegal borrowing;
- 4) respecting the market force when incurring future debt;
- 5) expanding the local economy and bettering local government bond markets;
- 6) breaking the current mode of rigid compliance with the principal redemption (gangxing duifu) and improving mechanisms to ensure default on debt be met with market and legal consequences.

Professor Lei proposed that the situation of hidden debt can be relieved by:

- 1) replacing them with other financing vehicles such as government bonds and financial institutions rollovers, or by debt restructuring;
- 2) repaying them with, for example, government finance or project incomes;
- 3) declaring bankruptcy and liquidating the failed local financing vehicles, having the creditors bear the losses;
- 4) auxiliary measures, including integrating quasi-municipal bond issuers and establishing credit guarantee fund.

At present, the most commonly used ways to relieve government debt is by replacement and repayment.

Following the report, panelists discussed the rise and the risks of Chinese local government debt, the level and impact of local government debt, and how to resolve the issue.

Finally, in summarizing the salon, Professor Guan Wei recapped that the five experts and scholars have defined and discussed the concept of local government debt from the perspectives of macro and micro, theory and practice, central and local, qualitative and quantitative, and academic and industry. They also deeply examined the subjects of the debt's macroeconomic effects, management on the medium- and micro-level, the features and developing trends of the market, and different systemic elements at play. He concluded by saying that the salon was an informative and inspiring event of full exchanges of views and insightful observations from the participants.

### **Macro-finance Salon (No. 163): Launch of Report on Global Open Banking Regulation**

On the afternoon of May 30, the Launch of Report on Global Open Banking Regulation

and Macro-finance Salon (No. 163), organized by School of Finance, Renmin University of China and co-organized by FinTech Institute of Renmin University of China, International Monetary Institute, China Banking Research Center and Peak Initiative of Digital Finance Open Research, was held in the form of online video conference. The conference was presided over by Mr. Song Ke, executive director of FinTech Institute of Renmin University of China and deputy director of IMI, and participating members included Mr. Wang Zhongmin, former deputy chairman of National Council for Social Security Fund of China, Mr Wang Guogang, professor of School of Finance of RUC and director of FinTech Institute of Renmin University of China, Mr. Yang Zaiping, secretary-general of Asian Financial Cooperation Association and former deputy president of China Banking Association, Mr Chen Daofu, deputy director of the Research Institute of Finance, the DRC, Mr. Li Zhenhua, director of Ant Group Research and Mr. Yuan Yang, member of the research group of Report on Global Open Banking Regulation.

First of all, Mr. Song delivers the report, which points out that with the promotion of open banking and the implementation of related policies in the UK and the European Union, open banking is attracting more and more attention as a growing trend in financial industry. On the one hand, open banking will change the way that financial system provides its services to customers, who will be given by open banking access to financial services through third party platforms outside financial scenarios. On the other hand, as banks open up its services and data, they can attract new customers, increase touch points, innovate their services and improve customer experience by aggregating financial data and innovating products. Therefore, as an unstoppable trend, open banking can bring about the overall growth of the market by promoting cooperation and creating a win-win situation among banks, customers and third parties. By now, more than 30 countries and regions have adopted or are considering to adopt open banking. However, we should be aware of the problems and challenges in the development of open banking environment. Related laws and regulations will be needed to guarantee the function of the whole system.

The report puts forward six suggestions: (1) to keep encouraging the opening and sharing of data; (2) to improve data-related legislation and privacy protection; (3) to strengthen government guidance and optimize external environment; (4) to implement open banking in a planned way with experience of other regions as reference; (5) to improve qualification and access management; (6) to clarify the scope of opening data and enhance general consensus.

## **Macro-Finance Salon (No. 164): Fundamental Causes of Rising Commodity Prices and Lessons Drawn from It**

On June 4, the Macro-Finance Salon (No. 164) was held by the International Monetary Institute (IMI) and the Department of Monetary Finance, School of Finance, Renmin University of China (RUC). Guo Biao, Deputy Director of the Department of Applied Finance, the School of Finance, RUC and Researcher of the IMI, delivered a report entitled “Fundamental Causes of Rising Commodity Prices and Lessons Drawn from It”. The seminar was chaired by Qu Qiang, Researcher and Assistant to Director of the IMI, RUC and Feng Bo, Secretary-General of the China Derivatives 50 Forum and Chairman of Jin Yan (Beijing)



International Consulting Co., Ltd., Hu Yuyue, Director of the Securities and Futures Research Institute of Beijing Technology and Business University, and Tang Ke, Professor and Director of the Institute of Economics, School of Social Sciences, Tsinghua University made perceptive comments on the report.

The seminar started with a report delivered by Professor Guo Biao entitled “Fundamental Causes of Rising Commodity Prices and Lessons Drawn from It”. The report analyses the factors behind the rising commodity prices with macro factors being the supply and demand gap caused by the pandemic, monetary easing of US dollars coupled with fiscal stimulus, short-term impact of carbon neutrality policies and etc.

In terms of micro factors, ten commonly used factors of Bull and Bear Index (BBI) are tracked in China's commodity market to establish a theoretical framework for the report. Analyses of fundamentals show that the producer prices of needed raw materials for downstream industries are at historically high levels, driving up the commodity prices. Therefore, a basic conclusion can be drawn by combining analyses of both macro and micro factors—something is amiss on the supply side. After summarizing the lessons learned this time, the report also offers suggestions, including improving the price discovery mechanism in derivatives market, developing basis trading, increasing elasticity of supply; leveraging RMB to adjust exchange rate and demanding Exchanges to keep a close eye on the market trend before the dominant contracts expire.

Based the report, Professor Hu Yuyue talked about his research and views on the rising commodity prices. First, this round of price spike, he believes, is caused by changes in economic fundamentals and excessive liquidity. If tensions between supply and demand in economic fundamentals cannot be solved effectively in the short term or in the future, the tide will not be turned. Second, there is no need to worry too much about the price increase spilling over to downstream industries. For example, the fall in pork prices has kept the CPI low.

Professor Tang Ke shared his understanding from the following four aspects. First, regarding the financialized commodity markets, he pointed out that three attributes determine the prices of commodities: supply, demand and finance. Second, in contrast to the soaring PPI, the rise of CPI is less sharp. An important reason is that upstream companies actually bear the brunt of price fluctuation. Third, in terms of the duration of the price spike, he maintains that fundamental factors are more at play, meaning that prices will not return to normal very soon. Fourth, he stressed that in the face of imported inflation risks brought by commodities and without the intervention of monetary policies, we should suit the remedy to the case by taking targeted measures and introducing a package of polices.

Feng Bo, Chairman of Jinye Company, pointed out that in recent years, researchers are more inclined to hold that moderate inflation supports economic development, and the public are less vigilant about inflation. However, the rise of commodity prices this time is not indicative of a moderate inflation, but a vicious one. Thanks to the timely measures taken by the two executive meetings of the State Council, the curve of the price rise has been flattened. Marketwise, we should respect market rules. Currently, it is imperative for industrial enterprises to stabilize the price to ensure production, whereas the futures market, to better serve the real economy, should leverage the over-the-counter market (OTC market) of bulk commodities to provide industries with one-to-one services.



## **Macro-Finance Salon (No. 165): RMB Exchange Rate Mechanism from a Factual Perspective**

On June 7, the online seminar of the 165th Macro-Finance Salon was jointly held by the International Monetary Institute (IMI) of Renmin University of China and the Department of Money and Finance of the School of Finance and Economics of Renmin University of China. Ms. Zhang Yu, Assistant to the Director and Chief Macro Analyst of Hua Chuang Securities Research Institute, gave a presentation titled “RMB Exchange Rate Mechanism from a Factual Perspective”. Mr. Guan Tao, Global Chief Economist of BOCI Securities; Mr. Guo Jianwei, Chief Editor of China Financial Publishing House; Mr. Zhou Yinggang, Vice President of Wang Yanan Institute of Studies in Economics and Professor of Department of Finance of the School of Economics, Xiamen University; and Mr. Bian Weihong, Director of BOC Research Institute attended the seminar. The salon was presided over by Mr. Tu Yonghong, Deputy Director of the IMI and Professor of the School of Finance and Economics of Renmin University.

First, Ms. Zhang Yu gave the presentation on the report titled “View RMB Exchange Rate Mechanism from a Factual Perspective”, which pointed out that the exchange rate is the result of interest rates in the long run and is priced based on economic fundamentals. The reform of the exchange rate mechanism is also forced by economic fundamentals in the long term. At the long-term level, the report constructed an indicator model to forecast the 10-year Treasury interest rate of the U.S., and used China’s nominal industrial growth rate to replace the interest rates to make judgments. The report believes that the RMB has a certain possibility of depreciation in the medium-term perspective.

At the medium-term level, the report used the method of formula split and digitalization to illustrate the official expression — “managed floating exchange rate system based on market supply and demand, and adjusted by reference to a basket of currencies”. It suggests that the closing price reflecting market supply and demand is mostly transparent, and the foreign exchange movements maintaining the stability of the basket are absolutely transparent and cannot be manipulated. The countercyclical factor countering the malfunctioning of market supply and demand is not transparent and can only be reverse calculated afterwards.

The report argues that the internationalization of RMB still has a long way to go, and data proves that the exchange rate is not a tool to protect exports and defeat inflation. China’s medium- and long-term export competitiveness is stable and will not be affected by exchange rate fluctuations. Recent exchange rate fluctuations are mainly caused by the weakness of the dollar index in a short term, but the long-term dollar index has rebound momentum. The action of the Central Bank this round is to trade exchange rate flexibility for monetary policy independence, but the Bank retains a suppressive attitude toward the volatility expectations outside the RMB market. The safe space of a rebound of RMB’s appreciation against dollar is sufficient.

Later, the seminar discussed on issues including the impact of RMB appreciation on export enterprises, how to view the recent exchange rate performance and exchange rate mechanism, the multiple balance of financial cycles and exchange rates, and the trends of



major currency exchange rates under the current complex international and domestic economic environment.

### **Macro-Finance Salon (No. 166): Financial Supply-Side Reform and Public Offering of REITs**

On June 26, the Macro-Finance Salon (No. 166) was held online. This event was co-organized by the IMI and China REITs 50 Forum, and was the ninth session under the series of “Learn from the spirit of the Two Sessions--finance supports the start of the 14th Five-Year Plan”. During the event, Zhao Chong, an expert of China REITs 50 Forum delivered a keynote titled Driving the Domestic Economic Circulation with Infrastructure Public Offering of REITs. Participating in the discussion on the performance of the first batch of publicly traded REITs were Luo Guilian, Chief Expert at the Investment and Financing Center of Shanghai State-Owned Capital Operation Research Institute, Jiang Yu, Associate Research Fellow at China Institute of Finance and Capital Markets and Member of CSRC Working Group on Piloting Public Offering REITs, Hu Feng, Deputy Secretary-General at the Specialized Commission on Finance of China Real Estate Association, Song Xin, Real Estate Investment Director at AVIC Fund and Fund Manager of the Biomass REIT of Shougang Group, Wang Qiaochu, Fund Manager at Bosera Funds and Fund Manager of China Merchants Shekou REIT, Liang Ce, Fund Manager at Hotland Innovation Asset Management and Fund Manager of Yantian Port REIT. The salon was chaired by Yao Yao, Vice President and Secretary-General of China REITs 50 Forum and President of Xiamen International Financial Technology Co., Ltd.

The salon opened with the keynote of Zhao Chong. He mainly analyzed the economic demands for infrastructure development in China, the framework and breakthroughs of infrastructure public offering REITs, and some key concerns of state-owned enterprises and central government enterprises in promoting public offering REITs. Zhao said that infrastructure is the foundation and prerequisite for economic and social progress. Due to sluggish development of infrastructure in the past, many regions now face a pressing need for more infrastructure. To meet this heightened demand, they must deal with the problem of financial input. In addition, investment in infrastructure has been in low gear because of its demand of massive input, long payback period, lack of exit channels and accumulation of debt risks. Public offering REITs effectively revitalize the existing assets by capital premium conversion, bank loan conversion and state subsidy for investing in new projects, becoming an effective way to reduce debt risks and raise funds extensively. The infrastructure public offering REITs system is also improving in China. Project funding from public offering REITs can replace the capital, thereby improving financing efficiency and lowering project risks. As a result, public offering REITs should have lower financing costs in theory.

During the discussion session, participants touched upon the following issues: the performance of the first batch of publicly traded REITs from the perspective of policymakers, regulatory issues related to REITs pilot projects, challenges of infrastructure REITs in China, valuation of REITs assets and insights on the expansion of public offering REITs.

### **Macro-Finance Salon (No. 167): Technology Waves Experienced by Commercial Banks**

On June 30, the Macro-Finance Salon (No. 167), co-organized by the International Monetary Institute (IMI), Renmin University of China (RUC) and Beijing Frontier Institute of Regulation and Supervision Technology (FIRST), was successfully held online.

Wang Jian, Senior Research Fellow of IMI reported on Technology Waves Experienced by Commercial Banks. Dr. Wang Yongli, Chief Economist at Neptunus and Former Vice President of Bank of China; Huang Jinlao, Chairman of Board of Suning Bank Co., Ltd.; Prof. Zeng Gang, Deputy Director of National Institution for Finance & Development and Director of Shanghai Institution for Finance & Development; and Yan Cui, Associate Dean of FIRST, made comments on this report. The salon was presided over by Song Ke, Deputy Secretary of CPC, School of Finance, RUC and IMI Deputy Director.

Firstly, Wang Jian delivered a keynote speech titled Technology Waves Experienced by Commercial Banks. He reviewed Chinese commercial banks' past and status quo, shed light on models of Internet lending, the use of big data in online lending and features of Internet banks' financial indicators, and shared his outlook for the banking industry. The key points are as follows:

The development of fintech in Chinese commercial banks has undergone three stages. First, the era of e-banks which started in the 1970s. The efficiency and accuracy of financial transactions was improved at this stage. Second, the era of network banks. During this period, banks were able to serve massive retail clients but opening accounts or online lending were still not available. Now we're at the third phase—the era of Internet banks. The biggest breakthrough is the use of big data in Internet lending in between 2012 and 2014.

Internet lending has two models. One is the exclusive-client model, which enjoys enormous data and traffic because most of its clients are from shareholders' Internet platforms and communities. Nonetheless, the model mainly serves existing shareholders and clients and is therefore not quite scalable. The other is the inclusive-client model, which provides loans accessible to all clients and is therefore more scalable.

The use of big data in pure online lending has three core modules. First, analysis of repayment intention, or an anti-fraud system. This module helps prevent fraudulent loans by analyzing clients' repayment intention. Second, analysis of repayment ability, or big data for risk management. Third, a cost optimization system.

Profound influence on banking and the outlook for the banking sector. Internet lending can enlarge target clients and force traditional banks to enter these sectors. However, negative impacts cannot be ignored. For example, lending to wrong people would cause problems. The government should promote the application of big data to credit investigation to further reduce big data cost and improve the maturity of the credit investigation model.

Later on, in the discussion, the participants made inspiring comments on the report from perspectives of the necessity of commercial banks' transformation, the influence of risk management capability on banks, the impact of digitalization on commercial banks, and the role of technologies in finance.



## Tao Xiang International Finance Lectures

### **Tao Xiang International Finance Lectures (No. 22): International Monetary Pattern in the Post-Pandemic Era Based on the Analysis of the International Financial Market**

On the afternoon of March 24, the Tao Xiang International Finance Lectures (No. 22) was successfully held at Renmin University. Dr. Zhao Xueqing from the Bank of China Research Institute, was invited to give a lecture on “International Monetary Pattern in the Post-Pandemic Era Based on the Analysis of the International Financial Market.” The lecture was chaired by Tu Yonghong, Deputy Director of IMI, and followed by comments from Lu Dong, Assistant Professor at the School of Finance, RUC.

Dr. Zhao Xueqing first briefed the global financial and monetary pattern. She mainly expounded the recent share of the financial pattern in various countries and regions around the world, including the transaction or asset scale of various financial institutions and markets, and then elaborated the current international monetary pattern. She pointed out that the current international monetary pattern was still a non-equilibrium one with the US dollar and the currencies of developed countries as the mainstay.

Dr. Zhao Xueqing then introduced the international financial market since COVID-19 outbreak. During this pandemic, the international financial market has experienced a liquidity crisis, once in the most crisis since the 2008 financial crisis. The world witnessed a new round of monetary easing, and fiscal policy has expanded unprecedentedly. Meanwhile, with a serious divergence between the financial market and the real economy, global debt has also risen sharply, and emerging markets are facing capital flow risks.

She then pointed out that the US dollar had begun to enter a downward cycle. Since COVID-19 outbreak, the US dollar index has been experiencing significant fluctuations. After hitting a new high in March, it began to trend downward in shocks. She believed that the exchange rate of the US dollar was directly related to its international status. She judged the trend of the US dollar in the long term and in the short/medium term – in the long term, the US dollar entered a downward cycle, while in the short/medium term, wide fluctuations would be seen, the center would move down with a limited scope, the international inertia of the US dollar still existed, and it was difficult to fundamentally shake its position.

Finally, Dr. Zhao Xueqing elaborated on RMB internationalization during the 14th Five-Year Plan. Based on some statistics, she concluded that RMB internationalization was going against the trend under the impact of COVID-19. She then referred challenges in RMB internationalization since the pandemic as follows. The unshakable international monopoly of the US dollar might be further strengthened in the short/medium term. Rising global anti-Chinese sentiment undermined the international acceptance of the RMB. The severe trade and investment situation affected the international use of RMB as a carrier. Compared with the US dollar and the Euro, the liquidity supply of the RMB had grown more slowly, so in the context of the massive release of global currencies, the international use of the RMB was limited and its international circulation was not yet complete, making it possible to be further broken under the impact of the pandemic. At the end of Dr. Zhao’s lecture, she summarized the four major problems that need to be solved in RMB internationalization during the 14th

Five-Year Plan. First, to break through the obstacles of RMB policy; second, to launch more RMB-to-small currency financial products; third, to connect the financial markets in the host countries; and fourth, to explore and open up a concession channel.

Prof. Lu Dong made a summary and comments on the lecture. By reconstructing theories and looking back in history, he put forward his own point of view, expounding the function of currency and the international monetary system from 1870 to the present. Finally, he concluded that the current international monetary system was still dominated by the US dollar and that the RMB could play an international currency function and become the pricing and settlement currency, and international reserve currency for international trade and financial transactions.



# Exchange

## Launch of IMF World Economic Outlook April 2021

On the morning of April 22, the Launch of IMF World Economic Outlook was held in Renmin University of China. The event was jointly hosted by IMF Resident Representative Office in China and International Monetary Institute (IMI) at Renmin University of China, and co-organized by China International Futures Co., Ltd. and China International Finance Society.

Mr. Steven Barnett, Senior Resident Representative of IMF in China, Mr. Li Xin, Deputy Resident Representative of IMF in China, Ms. Sonali Das, Senior Economist from IMF Research Department, Prof. Wu Xiaoqiu, Dean of Academy of China Capital Market and Former Vice President of Renmin University, Mr. Wei Benhua, Former Deputy Administrator of State Administration of Foreign Exchange and Former IMF Executive Director for China, Prof. Zhao Xijun, Co-Dean of Academy of China Capital Market of Renmin University, Mr. Chen Weidong, Director of Research Institute of Bank of China and Secretary General of China International Finance Society, Prof. Zhang Chengsi, Associate Dean of School of Finance of Renmin University, among other experts and scholars from financial management departments, research institutes and financial institutions from all around the world, presented at the meeting and delivered speeches, and more than ten media outlets were invited to the event. The meeting was chaired by Mr. Zhang Zhixiang, Former Director General of International Department of PBoC and Former IMF Executive Director for China.

In his welcome speech, Mr. Zhang Zhixiang said that the offline launch, after over a year since the last one, provided a rare opportunity for face-to-face communication. The World Economic Outlook released by the IMF not long ago sent a positive signal. Meanwhile, the report also mentions various challenges facing countries at present. Economic recoveries are diverging across countries, regions and provinces, for example. He quoted Ms. Georgieva, Managing Director of the IMF, as saying that the world is now facing a critical turning point where we hope to give everyone a fair and equal opportunity and help people achieve economic recovery through policy support.

Professor Zhang Chengsi mentioned in his opening speech that the global economy showed an obvious recovery trend in the first quarter of this year, and the World Economic Outlook in April 2021 made an upward revision on the projections for global economic growth for 2021 and 2022. As a developing country with good prospects for recovery, China will implement the new development concepts of innovation, green, coordination, openness and sharing, and further promote high-quality and sound economic development. On the other hand, the IMF pointed out in its report that large divergences in economic recovery speeds across and within countries may give rise to higher inequality. China will uphold the concept



of building a community of shared future for mankind, remain committed to making Covid-19 vaccines a public good that is accessible and affordable to all, and work closely together with the rest of the world in economic policies to mitigate climate change, promote digital transformation and restrict cross-border profit transfer.

Mr. Steven Barnett made the first keynote speech. He pointed out that the most important theme of this World Economic Outlook is the recovery of economic growth this year, but the world economy still faces many challenges and uncertainties, including the uneven economic recovery across and within countries. Spillover effects of policies in developed countries and inflation in various countries are also important topics. He expressed the hope to turn the COVID-19 crisis into an opportunity for economic recovery and create a future-oriented economic landscape. Mentioning “a shot in the arm”, he emphasized fair access to vaccines. He also stressed the importance of climate friendliness. To ensure sustained economic recovery, there must be tools. For example, the carbon pricing mechanism should be fine-tuned and green finance should be encouraged to meet the global goals of mitigating climate change. Inequality and returning to poverty are important macro issues hampering economic growth. After the crisis broke out, countries introduced various fiscal and financial arrangements. The IMF also provided financial assistance to countries hit by the crisis and planned to allocate Special Drawing Rights (SDR) worth 650 billion dollars to its member countries. Relatively controllable inflationary pressures in various countries, transparent policies in developed countries and more stable policy frameworks in emerging markets provided a buffer period for policy spillover effects.

Next, Mr. Li Xin gave a speech on the economic outlook of the Asia-Pacific region. He mentioned that the economy of the Asia-Pacific region began to recover in the third quarter of 2020, but the overall recovery was unbalanced. According to the baseline projections, the Asia-Pacific region as a whole will grow by 7.6% in 2021. Within the region, China and India are expected to grow by 8.4% and 12.5% respectively in 2021. The developed countries in the Asia-Pacific region have experienced positive recoveries. However, some ASEAN countries with repeated outbreaks are facing uncertainty in economic growth. According to the baseline projections, the main risks in Asia-Pacific region are as follows: (1) Risks from vaccines, including uneven vaccination rates and repeated outbreaks caused by virus variation; (2) Changes in the external environment, for example, the rising interest rate in the United States has a negative spillover effect on emerging Asian markets; (3) The risks of sovereign debt and corporate debt are rising; (4) Continued downside risks of technology decoupling between China and the United States. He further provided policy recommendations: (1) Offering fairer vaccination and employment opportunities; (2) Taking differentiated policy orientation to help dynamic enterprises and introduce them into the market; (3) Restarting the trade reform to support growth; (4) Supporting the transformation to green growth.

Ms. Sonali Das attended the meeting virtually from Washington DC and delivered a speech. She said that the epidemic may have unique transmission mechanism compared with the previous ones, which leads to misallocation of funds and resources after the epidemic. According to historical experience, most countries cannot fully recover in medium-term output after an economic recession. Although some industries greatly affected by the epidemic don't have a high weight in production network, there is still a significant spillover



effect. Projections for the medium-term output growth were revised down from 4% to 3% due to the epidemic. Comparatively, the global financial crisis takes an especially heavy toll on the financial industry, and the effect lasts longer. Generally speaking, the average income level, economic sector structure, fiscal policy and scale of epidemic response can explain the differences in the performance of various economies. From the perspectives of current impact, vaccination rate and the expectation of follow-up policies, emerging countries and low-income countries have weaker prospects than developed countries, and they will suffer sustained harm in the longer period. In the long run, the impact on industries is mainly a deep recession driven by the loss of total factor productivity. This influence may lead to bankruptcy of some enterprises, especially in contact-intensive industries. We need to focus on the transmission channels of future long-term losses, and take corresponding countermeasures.

Subsequently, Professor Wu Xiaoqiu delivered a keynote speech. He first introduced the basic situation of China's economy. The "14th Five-Year Plan" has determined that China's economy should be basically above the criteria of GDP for developed countries recognized by international organizations including IMF, OECD and the United Nations. With a growth rate of 6%, China's per capita GDP should be around 15,000 US dollars by 2025. He further analyzed the four opportunities for China's future development. First, improving Sino-U.S. relations. Sino-U.S. relations are important bilateral relations in the world, and a stable Sino-U.S. relations will stabilize the global landscape. The two governments, therefore, should focus on improving bilateral relations. Second, improving the market economic system and deepening reform. The most important symbol of successful reform is that people are motivated, and the core of reform is marketization. Third, improving the income of low-and middle-income groups. The driving force of economic development comes from low-and middle-income groups. During the "14th Five-Year Plan" period, the income of low-income groups should be doubled, passing the lowest threshold for consideration as a developed country. Fourth, enhancing the ability of scientific and technological innovation. Natural resources are not enough to support China to become a developed country, and only scientific and technological innovation will allow China to join the ranks of developed countries.

The panel discussion, chaired by IMI researcher Liu Hongwei, was centered on the theme of "economic recovery and sustainable development". During the discussion, Chen Weidong proposed three factors that should be paid attention to in the stage of economic recovery. First, the progress of epidemic control; second, the impact of super fiscal stimulus policies and ultra-loose monetary policies of various countries on future economic recovery; third, the impact of geopolitics on the world. Zhao Xijun pointed out that we are transitioning from the epidemic to the post-epidemic economy. After the transition is completed this year and next, the world will enter a relatively stable post-epidemic period. In this transition process, we should pay attention to three potential risks: repeated epidemic outbreaks, unstable policy changes, and the burden caused by the epidemic. Wei Benhua believed that risks lie in unequal vaccine distribution across the globe and the WHO's project of COVAX should be supported. In addition, reasonable measures should be taken to deal with policy spillover effects. Wei also expressed confidence in the future of China's economy. Steven Barnett pointed out that the epidemic shows that in an interconnected world, we need to work with each other in trade, taxation, health care and other fields to solve the problems we face. Li Xin said that the momentum of consumption in China has slowed down recently due to the

epidemic. In 2020, infrastructure investment accounted for 80% of GDP growth, while consumption has a negative effect on economic growth. Therefore, we need to maintain the investment-driven growth. In addition, automation, digitization and redistribution of the labor market are very important for realizing the mid-term economic recovery. Policy support should be tilted in favor of green and environment-friendly growth, and vulnerable families should be supported to ensure that everyone benefits fairly from the historical transformation.



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