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IMI Newsletter

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Highlight

Launch of IMF World Economic Outlook 2023

On the morning of October 13th, the "Launch of IMF World Economic Outlook 2023", jointly organized by the IMF Resident Representative Office in China and the International Monetary Institute (IMI) of Renmin University of China, and the International Financial and Industrial Cooperation Forum (IFIC), was held at China World Summit Wing in Beijing.

Steven Barnett, Senior Resident Representative of IMF in China, Silvia Albrizio and Mehdi Benatiya Andalousi, Economists of the IMF Research Department, Zhou Chengjun, Director of the Research Institute of the People's Bank of China, Zhao Xijun, Co Dean of the China Capital Market Research Institute at Renmin University of China, Wang Fang, Associate Dean of the School of Finance and Finance at Renmin University of China, and Deputy Director of IMI, Liu Hongwei, Secretary General of International Financial and Industrial Cooperation Forum (IFIC), Guo Biao, Assistant Dean of the National Institute of Finance at Renmin University of China, and other experts and scholars from financial management departments, research institutes, and financial institutions from around the world attended the meeting and delivered speeches. Dozens of media outlets participated in the coverage. The meeting was chaired by Zhang Zhixiang, former Director General of the International Department of the People's Bank of China and former Executive Director for China at IMF.

Mr. Steven Barnett first delivered a keynote speech. He pointed out that the world economy will be resilient in 2023, but there has been a widespread scarring effect in the post pandemic economy. He proposed that in the next two years, the world economy is expected to grow by 3% and 2.9% respectively, and China remains the largest engine of global economic growth, contributing one-third of global growth. The scarring effect is more pronounced in low-income developing countries after the pandemic, especially in the least developed countries, which have been affected the most, leaving permanent scars. The United States is the country with the fastest recovery among major economies, while China ranks on the average of the global scarring effect. In the medium term, the global economic growth rate is the lowest in decades.

Secondly, he pointed out that the priority of monetary policy is to address inflation. Inflation has peaked in many countries, and a soft landing has been basically achieved without a recession, indicating that the global central bank policy response is still relatively appropriate. Unlike other countries, China's inflation has not increased significantly, but has remained at a relatively appropriate level. Other major economies currently have their highest interest rates, which may gradually ease. At the same time, the policy signal is also clear, but it is recommended that these countries' central banks do not withdraw their monetary policies too early.

Next, Ms. Silvia Albrizio introduced the second chapter of the World Economic Outlook on inflation and monetary policy. She pointed out that the inflation rate of multiple economies around the world, excluding China, reached their highest levels in decades in 2022, especially the core inflation rate; And China's core inflation rate remains basically 0%. According to IMF forecasts, most countries will find it difficult to return to their inflation targets by 2025. Silvia Albrizio mainly explained the following three points: firstly, the recent performance of inflation expectations; Secondly, expectations are explaining inflation dynamics. The third is how inflation expectations affect the effectiveness of monetary policy and whether policy can in turn affect inflation expectations.

Mr. Mehdi Benatiya Andaloussi’s keynote speech on the impact of global market fragmentation on the world economy followed. He pointed out that because of the high concentration of natural resource endowment, commodities have the characteristics of high correlation with macroeconomic trends, difficult to replace, concentrated production, high trade share, and many countries are highly dependent on commodity imports, so the commodity market has become more fragile in the market fragmentation. The fragmentation of global commodity markets can lead to severe price volatility and an increase in global GDP imbalances, with low-income countries being the most affected due to their high dependence on agricultural trade. At the same time, market fragmentation would make the green transition more costly for countries. Therefore, countries around the world should, at a minimum, establish a food and minerals "corridor" through multilateral cooperation to safeguard food and the green transition; share data on key minerals; and respond to external risks by boosting domestic production, increasing the sources of commodities, diversifying the supply chain, and building up stockpiles where appropriate.

Afterwards, Mr. Zhou Chengjun analyzed three areas regarding the development of China's economy. He mentioned that he is cautiously optimistic about China's macroeconomy, and the key to maintaining this attitude lies in China's real estate market. The demand for housing improvement and urbanization in China will provide a very bright future for the real estate market, and the key lies in what policies are adopted to meet these demands. Secondly, Zhou analyzed the challenges of China's "dual carbon target" green transition in terms of the high correlation between carbon peaking and stable urbanization rates. Achieving the "double carbon target" requires not only focusing on the growth of urbanization rate, but also thinking about the question of where the peak of carbon is located. Finally, he emphasized the importance of the carbon market and green transition, analyzed the irrationality of the international tax on carbon emission allowances, and pointed out that it will take some time for the development of China's carbon market to mature, and that the international community should have more patience and confidence in China, and work together to optimize the allocation of resources.

The subsequent panel discussion, moderated by Zhao Xijun, featured Steven Barnett, Silvia Albrizio, Mehdi Benatiya Andaloussi, Liu Hongwei and Guo Biao. Participants had a wide-ranging discussion on the issues mentioned in the keynote speech, such as scarring effect, inflation, medium- and long-term economic growth, and commodity market.

Research

Macro-Finance Salon

Editor's Note:

The Macro-Finance Salon is a high-level academic salon initiated by the International Monetary Institute of Renmin University of China. Based on China's practice and closely following the international frontier, the salon has built a high-level, professional and open academic exchange platform to promote the construction of the discipline of "Macro-Finance" in the new era and carry out in-depth research on theories, policies and strategies of "Macro-Finance".

Professor Huang Da is the initiator of the "Macro-Finance" system. At the turn of the century, in response to the new challenges and requirements posed by economic and financial globalization, he reconstructed the financial discipline framework based on China's conditions, and initiated the discipline system of "Macro-Finance". Generations of scholars have continued to carry forward on this basis, advocating the combination of finance and the real economy, macro- and micro-finance. A major theoretical innovation system with distinctive characteristics of the school of Renmin University is gradually taking shape.

Macro-Finance Salon (No. 213): Credit is the Essence of Currency

On September 10, Macro-Finance Salon (No. 213), jointly organized by the School of Finance and Economics at Renmin University of China and the International Monetary Institute of Renmin University, were successfully held under the theme "Credit is the Essence of Currency". Dr. Li Yang, Member of the Academic Committee of the Chinese Academy of Social Sciences and Chairman of the National Institution for Finance and Development (NIFD), delivered the keynote speech. Professor Wang Guangqian from the School of Finance at Central University of Finance and Economics, Professor Wang Guogang from the School of Finance and Economics at Renmin University of China and Member of the Academic Division of the Chinese Academy of Social Sciences, Mr. Wang Yongli, General Manager of China International Futures Co., Ltd., and Dr. Zhang Jie, Director of the International Monetary Institute of Renmin University of China, attended the conference and participated in the discussions. The conference was chaired by Professor Wang Fang, Associate Dean of the School of Finance and Economics at Renmin University of China and Deputy Director of the International Monetary Institute.

Dr. Li Yang initiated the event with his keynote speech, providing a comprehensive analysis on the proposition that the essence of currency is credit, starting from the fundamental concepts of money and credit.

Firstly, he analyzed the historical evolution of credit. Traditional trust mechanisms were based on familiar social relationships, while the trust mechanism of the industrial era relied on specialized intermediary institutions. Regarding future reform directions, he suggested placing transaction mechanisms in the U.S. Treasury market through repurchase transactions to establish market interest rates, and alternatively, placing them directly in digital currency trading platforms, where blockchain technology serves as the technical foundation for trust in this mechanism.

Secondly, he examined the decisive role of credit in the evolution of the international monetary system. Dr. Li Yang pointed out that the early history of the gold standard clearly revealed the nature of money as a credit relationship, with the pound sterling as the key currency in the gold standard system. The essence of the Bretton Woods system was the gold standard, and after its collapse, the international monetary system became a U.S. dollar credit system. In summary, it is the strong currency of a powerful nation that supports the entire world, with credit being the foundation—formerly the credit of the United Kingdom and now the credit of the United States.

Thirdly, he delved into the hierarchical study of money. Money has always had layers: the first kind is the hierarchical system of money under the gold standard, with gold and silver as the first layer and promissory notes issued by commercial banks and other bills as the second layer. The second kind is the hierarchical system under the central bank system, where the central bank monopolizes the first layer of money, based on its asset-liability sheet, and also monopolizes the issuance right of the second-layer money. Commercial banks, although only in the third layer, constitute the foundation for the circulation of money for credit creation. The third kind is the hierarchical system under digital currency, where Bitcoin or the U.S. dollar represents the first layer of money, functioning similarly to gold. Central bank digital currencies, Bitcoin deposits, stablecoins, etc., constitute the second layer of money, and stablecoins based on the atomic swap mechanism are in the third layer.

Fourthly, he explored the credit creation process from the perspective of the balance sheet. Dr. Li Yang pointed out that, the current dilemma of the coexistence of “loose money” and “tight credit.” is because “loose money” is measured from the liability side to gauge money, while "tight credit" measures money from the asset side. The liquidity released by monetary authorities is retained by financial institutions on their balance sheets in the form of liabilities, instead of being effectively transformed into credit for economic entities.

Subsequently, the participating guests engaged in in-depth discussions surrounding the essence of currency and its inherent connection with credit.

Macro-Finance Salon (No. 214): Global Trade and External Rebalancing

On September 14, the Macro-Finance Salon (No. 214), jointly organized by the International Monetary Institute of Renmin University of China and the School of Finance, was successfully conducted. The theme of this salon was "Global Trade and External Rebalancing."

Mr. Chen Jiaqian, Deputy Director of the Open Economy and Macro Economic Division at the IMF's Research Department, delivered the keynote presentation. The panel of participants included Steven Barnett, the Senior Resident Representative of IMF in China; Zhao Xijun, the Co-Dean of Academy of China Capital Market at Renmin University of China; Tu Yonghong, Deputy Director of IMI and Dean of the Research Institute of the Yangtze River Economic Belt at Renmin University of China; and Di Dongsheng, Associate Dean of the School of International Relations at Renmin University of China. The salon was moderated by Zhang Zhixiang, former Director-General of International Department of PBoC and former IMF Executive Director for China

Mr. Chen presented some of the major findings from the International Monetary Fund's "External Sector Report" for the year 2023. He explained that the primary objective of the "External Sector Report" is to conduct a multilateral and consistent evaluation of the external positions of the world's largest economies. This evaluation focuses on areas such as the current account, real exchange rates, capital flows, external balance sheets, and international reserves. The report identifies instances of excessive deficits and surpluses in current accounts, assesses risks within the external sector, and discusses potential policies to promote external rebalancing. The "External Sector Report" plays a critical role in fulfilling one of the core missions of the International Monetary Fund, which is to maintain stability in the international monetary system.

Mr. Chen provided an overview of the first two chapters of the report. The first chapter covers developments in the external sector over the past year, briefly addressing the prospects for global balance of payments and associated risks. Additionally, the chapter introduces the IMF's methodology for evaluating the external sector, the outcomes of the assessment, and the policies aimed at facilitating external balance. The second chapter delves into the impact of the global U.S. dollar cycle on the external sector. Notably, the chapter underscores that the adverse spillover effects of the global U.S. dollar cycle are more pronounced and enduring in emerging market economies. The reduction of capital inflows and domestic credit through financial channels exacerbates these detrimental effects, while a more stable outlook for inflation and flexible exchange rate regimes may expedite economic recovery.

Huarui Fintech Salon

Huarui Fintech Salon (No. 12): Exploration and Practice of Digital RMB

On August 13, Huarui Fintech Salon (No. 12) was successfully held online, co-hosted by Shanghai Huarui Bank, the International Monetary Institute of Renmin University of China (RUC), and the Fintech Institute of RUC. Yang Tao, Senior Manager of the Digital Currency Office at Bank of China, delivered a keynote speech. The discussion involved various experts, including Long Fei, Director and Researcher of the Digital Economy Laboratory at Beijing Institute of Mathematical Sciences and Application (BIMSA), Han Liyan, Researcher at BIMSA and Professor at Beihang University School of Economics and Management, Wang Zhicheng, Associate Professor at the Guanghua School of Management at Peking University and Researcher at BIMSA, Zhu Taihui, Deputy Dean of the Economic Development Research Institute at JD Group, Qiu Zhigang, Professor at the School of Finance at RUC, and Wang Yongli, General Manager of China International Futures Company. The session was moderated by Wang Fang, Vice Dean of the School of Finance at RUC and Deputy Director of the International Monetary Institute.

In the first part of the event, Yang Tao discussed the core advantages and motivations for implementing digital currency, as well as the current development status and application scenarios of the digital RMB. He pointed out that digital currency is a form of currency issued by the central bank in digital form, representing a new form of currency evolution. It has the ability for peer-to-peer transactions, enabling real-time settlement and zero-cost transactions, addressing shortages of traditional payment systems. According to a BIS report, 90% of institutions worldwide are conducting research on digital currencies, with different countries and regions having different goals, including cross-border payments, cashless payments, and inclusive finance. China's journey towards legalizing digital currency has taken years. China now has adopted a dual-layer operating system and connected the central bank with ten operating institutions to provide digital RMB services. The digital RMB is not only a payment tool but also a new tool for property rights and financial supply-side reforms, serving as infrastructure for the digital economy. It is a new payment method based on the concept of a “wallet” rather than an account. It comes in the form of both “soft” and “hard” wallets to meet different user needs. It also has different levels of identity authentication to protect user privacy and security. The digital RMB has been widely used in various application scenarios, including government affairs, businesses, and industry platforms. It has achieved full coverage in certain areas, such as Digital Jinji Lake, Hengbao Industrial Park, and elderly care scenarios. With the advancement of the "14th Five-Year Plan," the digital RMB will steadily advance in pilot projects and be prepared for full-scale application in the future.

In the second part of the salon, the participating experts engaged in in-depth discussions on topics such as the application scenarios and specific value of digital RMB, the current development and potential issues, research and development and pilot projects for the development of digital RMB, and the improvement of top-level design and industrial ecosystem.

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