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Beijing Reins In China's Central Bank

The PBOC was never independent but it has tried to establish good communication with markets. Xi Jinping's financial shake-up is changing that.

By [Lingling Wei](#) [Follow](#)

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The People's Bank of China has never been politically independent like a Western central bank, but it has nonetheless enjoyed a special status in the nation's economic hierarchy. Now, President Xi Jinping's shake-up of China's financial sector is stripping that away.

Earlier this week, pressured by senior leaders worried about plunging economic growth, the PBOC said it would ease banks' reserve requirements, effectively making more cash available for bank lending. The move went against policy signals it had sent weeks earlier and came as the central bank and other financial institutions came under scrutiny by Beijing, part of Mr. Xi's effort to curb capitalist forces in the economy.

Of all the financial institutions being scrutinized by Mr. Xi's discipline inspectors, the PBOC is arguably the most consequential. The central bank oversees one of the world's largest financial systems. Though it needs approval from the top bodies of government before it makes big decisions such as those about interest rates, the PBOC has worked for years to establish credibility among investors, at home and abroad, as China's markets became more sophisticated and their influence extended across the globe.

In recent weeks, Communist Party discipline inspectors from China's top anticorruption agency have visited the central bank's headquarters in central Beijing. Officials briefed on the matter said the inspectors asked questions, reviewed documents and brought an unusually stern message: Beijing has little

tolerance for any talk of central-bank independence; the monetary authority, just like any other part of the government, answers to the party.



Chinese Premier Li Keqiang speaking during a video call with IMF Managing Director Kristalina Georgieva, top middle, and leaders from other major international economic organizations on Monday.

PHOTO: ROMAN PILIPEY/EPA/SHUTTERSTOCK

The PBOC is among some 25 financial institutions at the heart of the Chinese economy now being scrutinized by Mr. Xi's discipline inspectors. The examinations started earlier this fall as Beijing was trying to address what top leaders see as lax regulations over sectors ranging from technology to entertainment and education and to reduce the economy's overreliance on debt-fueled property investments.

People familiar with the plan have said part of the focus of the inspections was on whether these state financial stalwarts had become too chummy with private firms, or, in the case of regulators like the PBOC, whether they had been negligent in fending off risks posed by private companies such as Ant Group, the beleaguered financial-technology firm controlled by tech billionaire Jack Ma, and China Evergrande Group, the debt-laden real-estate developer now teetering on the brink of collapse.

The crackdown on property lending was welcomed by the central bank, which has long advocated what PBOC officials have called "policy discipline" and has been of the view that credit easing only exacerbates speculative bubbles.

Even as markets swayed over the threat of default by Evergrande and other

developers who were now unable to get new loans, Sun Guofeng, head of the central bank's monetary-policy department, in October sought to dispel expectations that the PBOC would slash banks' reserve requirements to make it easier for them to issue loans.

"From the perspective of the entire fourth quarter, the situation of liquidity supply and demand should be basically balanced," Mr. Sun said at an Oct. 15 press conference, implying that there was no need for the central bank to resort to a large-scale liquidity injection.



China has cracked down on indebted real-estate developers like China Evergrande Group, whose building projects include a new soccer stadium for Guangzhou FC in Guangzhou.

PHOTO: ALY SONG/REUTERS

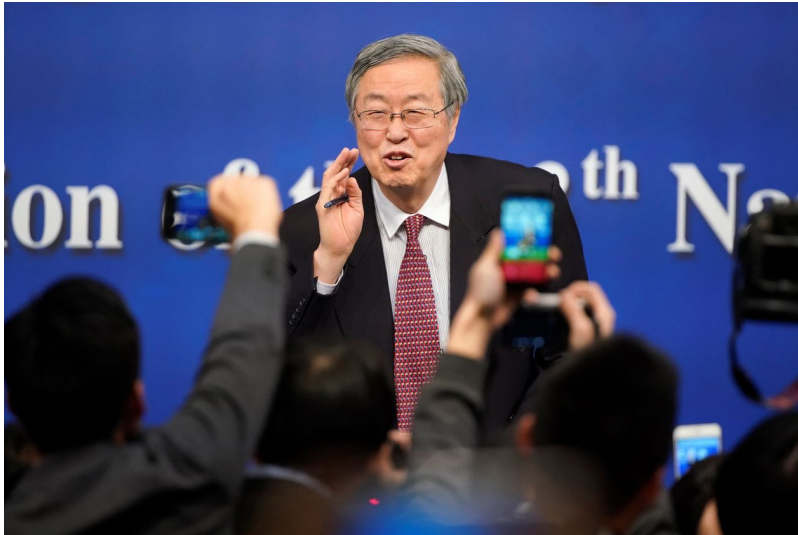
Economists and investors paid heed. Nomura analysts said in an Oct. 17 note to investors that they didn't expect a reduction in reserve-requirement ratios in the fourth quarter.

In the weeks since, China's leadership has come under pressure to tamp down turmoil in the property sector, which is now threatening to severely cut into services and manufacturing activities. A senior economic adviser to Chinese leaders said China's much slower-than-expected economic expansion in the third quarter, at 4.9%, led top leaders to decide to bolster support for the economy despite the central bank's preference to maintain a more conservative policy stance.

On Friday, Premier Li Keqiang all but overturned the guidance provided by the

PBOC earlier, pledging to cut the reserve-requirement ratio to buttress the economy in a video call with the International Monetary Fund Managing Director Kristalina Georgieva. Footage by China's state broadcaster shows the PBOC governor, Yi Gang, sitting in the background, diligently taking notes.

Three days later, the central bank announced the cut. For all its talk of policy discipline, the PBOC might find it having to ease further to support the economy, and some economists are expecting interest-rate cuts next year.



Zhou Xiaochuan, who retired as PBOC governor in 2018, was one of China's best-known economic reformers.

PHOTO: ALY SONG/REUTERS

Over the 15 years that the PBOC was led by Zhou Xiaochuan, one of China's best-known economic reformers and a believer in making the central bank both more transparent and more autonomous in setting policies, the PBOC became such a dominant force in China's economic governance that it was often dubbed by the Chinese public as “yang ma,” or Big Mama.

With a combination of political savvy and technical expertise, Mr. Zhou managed to put off his retirement for five years and spent his last years in office promoting wider use overseas of the Chinese yuan, also known as the renminbi, an effort that earned him the nickname “Mr. Renminbi” within China.

During his tenure, Mr. Zhou, who retired in 2018, worked with Liu He, another official known to be market-friendly who now serves as the vice premier overseeing the financial sector. Together, the two of them elevated the central

bank's status in the Chinese bureaucracy, enabling it to resist calls from other parts of the government to turn on the credit floodgate whenever growth came under pressure.

“The PBOC has carved out a modest amount of operational autonomy to push forward financial liberalization and a more market-oriented monetary policy framework,” said Eswar Prasad, an economics professor at Cornell University and former China head for the International Monetary Fund.

“That notion of operational autonomy is now coming into conflict with a more intrusive role of the government in the economy,” Mr. Prasad said, adding: “The PBOC is losing.”

The discipline inspectors have already fingered for investigation a former senior central-bank official in charge of financial stability, Zhou Xuedong, according to people with knowledge of the matter, as well as another former official involved in PBOC's supervision of financial-technology firms, Wang Yonghong.

It couldn't be determined what Mr. Zhou, currently executive vice president at state financier China Development Bank, and Mr. Wang are being investigated for. They couldn't be reached to comment. The PBOC, China Development Bank and the Central Commission for Discipline Inspection didn't respond to questions.

The U.S. Federal Reserve, the European Central Bank, Bank of England and others have focused in recent years on tailoring their signals on interest rates and other big decisions to markets, building up their credibility with investors.

In the U.S., the Fed has also come under political pressure to lower interest rates, especially during the Trump administration, but took pains to assert its independence.

The Chinese central bank has tried to act like its Western peers by being more responsive to investors and improving its communication with the market. Erosion of the central bank's authority threatens to make its messages less meaningful to investors and economists.

In an article posted on the discipline commission's website last month, Xu Jia'ai, head inspector of the PBOC, said his team of inspectors had given party lectures

across the central bank to strengthen the party's leadership at the bank.

“In the past period, the foundation for comprehensive and strict governance of the party in the financial sector was weak,” Mr. Xu said, “and the tendency of financial ‘specialism’ and the central bank ‘exceptionalism’ was prominent.”

The message, said some who attended the lectures, was that whatever macro-policy discipline the central bank tries to maintain would be secondary to the need to deliver what the party leadership asks.



President Xi Jinping, appearing on a screen at the Museum of the Communist Party of China in Beijing, has led an effort to curb capitalist forces in the economy.

PHOTO: ROMAN PILIPEY/EPA/SHUTTERSTOCK

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