China’s central bank “sidelined”

Nick Beams
29 December 2023

An article published earlier this week in the *Financial Times* (FT) has drawn attention to some significant changes in the operations of the Chinese central bank—the People’s Bank of China (PBoC)—flowing from decisions taken by the ruling Chinese Communist Party (CCP) back in March.

At that time China’s president Xi Jinping announced the formation of a Central Financial Commission (CFC) to preside over the $61 trillion Chinese financial system, reducing the powers of the PBoC and the China Securities Regulatory Commission.

Since then, the CCP has been putting together the staff needed to operate the new body—a process which seems near completion.

The report in the FT, headlined “China sidelines its once venerated central bank,” said the aim was to “step up a drive to centralise Communist party control over financial regulation.”

It noted that while the PBoC would continue to play a role in the daily operation of money markets, its governor will be ranked lower in the hierarchy of the CCP than some of the governors of other banks.

The move to downgrade the central bank’s role clearly reflects growing concerns in ruling circles about continued lower growth. The expected boost following the lifting of all anti-COVID measures failed to materialise, and the ongoing problems in the real estate and property sector have been a drag on the rest of the economy.

At times there have been criticisms that the Western media have over-emphasised the problems of the Chinese economy. That may well be true, at least in part. But there is no doubt that with the lowest growth in more than three decades, and no sign of any immediate relief, major problems have emerged.

Xi himself has openly acknowledged the difficulties in remarks reported by the state news agency Xinhua earlier this month. He said that although the economic recovery from the pandemic was improving, China faced an adverse international economic and political environment as well as domestic challenges.

“At present, our country’s economic recovery is still at a critical stage,” he said. “The development situation facing our country is complex.”

There are other indications of major problems. While it is not an official edict, it has been made clear to economists and commentators that they should not focus on the difficulties of the economy. Last August the publication of the levels of youth unemployment—those aged between 16 and 24 in urban areas—was stopped after it showed persistent jobless rates of more than 20 percent.

According to the FT report, the sidelining of the PBoC is a move way from more market-oriented policies on finance towards more direct control from the top levels of the CCP and the government.

George Magnus, a long-time China observer and an associate at Oxford University’s China Centre, told the newspaper that the “PBoC’s reformist and modernising tendences” had been a “sort of Trojan horse that allowed the government to experiment with financial liberalisation and… integrate other market-oriented mechanisms [within] a state-dominated system.”

The operations of the PBoC are now under the control of the Communist party-led oversight body, the CFC. It is headed by He Lifeng, the country’s vice-premier, and reports directly to the premier Li Qiang, who is chiefly responsible for the economy and financial affairs.

The changes in the position of the PBoC have gone down the organisation.

The FT reported that, according to four people who had been briefed on the matter, at the lower levels of the PBoC, “some advisers and research department heads, including those receptive to market-oriented reforms, have either stepped down or been sidelined.”

The PBoC is known to be opposed to the previous methods of boosting growth based on the expansion of credit. It is too early to tell, but its removal from centre stage of policy-making could be the start of a move back in that direction after various minor moves on monetary policy have had little or no effect.

The PBoC has opposed major credit expansion because of the fear that it will add to the country's debt problems as well as pushing down the value of the renminbi. The PBoC has worked to sustain the value of the currency lest its fall provokes a capital flight.

A National Administration of Financial Regulation has also been created to oversee all financial activities apart from securities. According to the FT report, it will absorb more than 1,660 of the lower level branches of the PBoC out of a total of 1,761 branches as of the end of 2021.

How these changes are reflected in economic and financial policies remains to be seen but their scope does indicate rising levels of concern in the upper echelons of the Xi government over the problems it confronts.

There will be no boost provided internationally. Despite its professed claims that it is seeking warmer relations, the Biden administration is intensifying its military preparations against China and is continually seeking new ways, through bans and export controls, to stifle its technological development.

International capital is also giving the thumbs down, with the FT reporting that almost 90 percent of the money that has flowed into the stock market this year has since been pulled out "spurred by mounting doubts about Beijing's willingness to take serious action to boost flagging growth."

One of the factors behind the withdrawal has been the continuing problems in the real estate sector which took a turn for the worse in August when Country Garden missed international bond payments. It had been touted as a secure property developer, by contrast with the failed giant Evergrande.

According to an investment manager at a Hong Kong based wealth management firm, cited by the FT: "The confidence issue goes beyond real estate, although real estate is key. I'm referring to consumer confidence, business confidence and investor confidence—both from domestic and foreign investors."