

PBOC Chief Vows Supportive Policy as Growth Returns to Potential

- Economy to return to potential growth rate in 2022, Yi says
- PBOC's monetary policy stance diverges with rest of the world

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China's economy will return to its potential growth rate in 2022, though various challenges will require the central bank to maintain a supportive monetary policy stance, Governor Yi Gang said.

"We will keep our accommodative monetary policy flexible and appropriate, and increase support for key areas and weak links in the economy," Yi said in a videotaped speech Wednesday ahead of a meeting of central bank chiefs and finance ministers from the Group of 20 nations in Jakarta.

Volatile internal and external conditions will create challenges for the economy and require more counter-cyclical policy adjustment, he said.

The People's Bank of China shifted to easing mode in the second half of last year as economic momentum faltered under a property downturn and sporadic virus outbreaks. The central bank has taken swift action in recent months by cutting interest rates, reducing the amount of cash banks must hold in reserve, and boosting credit expansion in the economy.

While the PBOC held its policy interest rates steady on Tuesday, many economists expect further easing in coming months. Inflation data on

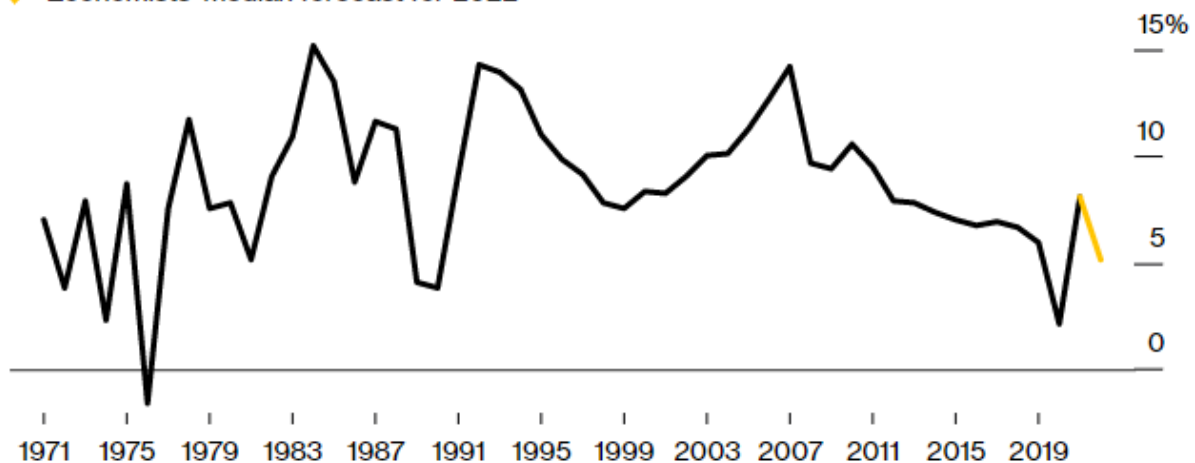
Wednesday added to those calls, with both consumer and factory inflation slowing more than expected in January, and the core consumer price index, which strips out volatile food and energy costs, indicating weak domestic demand.

Back to Normal

China's central bank governor sees growth returning to potential level

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📌 Economists' median forecast for 2022



Source: National Bureau of Statistics, Bloomberg

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The central bank projects China's potential growth rate, or the maximum the economy can expand without fueling inflation, is about 5%-5.7% in the five years through 2025. The objective of monetary policy should be to match actual output with potential, it said in a paper last year.

Economists polled by Bloomberg forecast growth will slow to 5.2% this year after surging to 8.1% in 2021 during the economy's post-pandemic recovery period.

Regional Cooperation

Yi spoke alongside Bank Indonesia Governor Perry Warjiyo on a panel discussing how emerging markets can manage the risks of monetary stimulus withdrawal. With the Federal Reserve expected to hike interest rates at least six times, and other major central banks

already tightening policy, emerging markets are facing the risk of capital outflows and weaker currencies.

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The PBOC hinted at those concerns in its quarterly policy report last week, suggesting it's paying more attention to the actions of other central banks. The policy divergence between the Fed and PBOC has reduced the yield premium of Chinese government bonds to U.S. Treasuries, increasing the threat of portfolio outflows.

Yi called on emerging economies to increase regional financial cooperation, with a focus on growing the use of local currencies.

Currency swaps that central banks in Asia have set up helps enhance the regional financial safety net and facilitate bilateral trade and investment, Yi said. China is ready to work with other Asian economies to promote the use of local currencies, he said.

“Central banks from advanced economies should continue to enhance market communication,” Yi said. “Meanwhile, emerging markets should improve their resilience. This is where regional financial cooperation has a key role to play.”

— With assistance by John Liu, Yujing Liu, and James Mayger
(Updates with more details from speech in last section)