Cheap Talk
China’s Central Bank Still Struggles to Speak to Markets

By Scott Kennedy and Yilin Wang

THE ISSUE
The People’s Bank of China (PBOC), which oversees the world’s largest financial system, struggles to effectively communicate with market actors, domestic and foreign. Yi Gang, the current governor of the PBOC, despite being more reticent than his counterparts around the world, has spoken on more public occasions than his predecessor. As a result of Yi’s personal interest as well as changes in the PBOC’s communications strategy, the bank has gained greater public visibility. However, this recent activism should not be mistaken as a sign of greater autonomy or authority. The PBOC has assumed a more important role in China’s overall financial governance, taking up a “dual-pillar” function that included both monetary policymaking and macro-prudential management; but it is still far from an independent central bank whose words convey great authority. U.S. policymakers and the financial community should pay close attention to how the PBOC speaks to markets to understand how Chinese economic policies are implemented, but everyone should recognize that on critical issues, higher authorities within the central government and the Chinese Communist Party (CCP) still set the agenda and speak most authoritatively for the regime.

TO SPEAK...
For decades, central banks around the world have strived to become more transparent, in what Alan Blinder calls a “quiet revolution.” Notably, central bankers have employed a “forward guidance” strategy to proactively shape market expectations. The PBOC has tried to adopt the practices of other leading central banks; however, its progress has been halting and uneven. As the CSIS 2016 analysis showed, the PBOC’s communication to markets has been infrequent, unpredictable, and disassociated from major policy announcements or regularly scheduled press conferences. The PBOC governor has also never testified before the country’s legislature, the National People’s Congress (NPC), as many of their counterparts do.

But recent conversations with Chinese officials and a review of government documents suggest that the PBOC understands it needs to intensify and improve communication with markets to more effectively shape expectations about Chinese monetary policy and the overall direction of the economy. Moreover, they are aware that other governments and the global financial community are also carefully listening and adjusting their own actions based on what they hear. To determine whether the PBOC has taken the task of speaking to markets more seriously, we updated our unique dataset of central bank governors’ communications.

The new data do show that Yi Gang, China’s current central bank governor, has overall spoken more frequently than his predecessor, a trend consistent with Xi Jinping’s instructions to the PBOC in 2017 to play a larger role in China’s overall financial governance. At the same time, the data paint far from a simple, linear picture. Yi spoke often in 2018 and 2019, but he has been unusually quiet in 2020, a year when his counterparts have all been quite verbose. After all, we are living in a time when economies are faced with unprecedented challenges due to the
Covid-19 pandemic, which has required central banks to take dramatic action. But instead of Yi leading the financial conversation in China, Premier Li Keqiang has had a much higher profile in delivering important policy decisions related to monetary policy. And, of course, on the most critical issues, Xi Jinping is in a category all by himself.

This brief documents, with quantitative data and additional analysis, the evolution of the PBOC’s efforts to have a larger voice, both toward external audiences and in internal policymaking. We conclude that its voice vis-à-vis the public has been constrained and likely will always be so as long as it has a subordinate role within China’s policy process.

…OR NOT TO SPEAK

The starting point for understanding the significance of the PBOC’s communication with markets is to compare how China’s central bank stacks up against others. We built a unique dataset for the period of January 2015 to June 2020 of the four primary ways central governors speak to markets: informal remarks, media interviews, speeches, and legislative testimony. In addition to China, we intentionally focused on seven other central banks that are both important and are situated in a range of political systems: Brazil, Canada, the European Union, Japan, Russia, the United Kingdom, and the United States. To be as comprehensive as possible, our data was compiled from the websites of the central banks, other government agencies, and media outlets. (See the appendix for further details about our data.)

This effort builds on CSIS’s initial work in early 2016, which found that compared to their counterparts, China’s central banker keeps relatively quiet. This latest report, which also involved reviewing the earlier research and expanding our sources of information, arrives at a similar general finding. As Figure 1 shows, six of the other seven central banks communicated with markets more often than the PBOC. Japan stands out with 235 communications; China’s governor speaks slightly more than half as often, with only 122. The only central bank to be tighter lipped is Russia, at 109. China’s central bank primarily communicate in formal speeches and informal remarks. They give fewer media interviews than any of the central banks, and unlike everyone else, China’s central bank governor never provides formal testimony in front of its legislature. They do sit for a press conference on the sidelines of the annual legislative session, but they answer questions from reporters, not NPC deputies.

This general pattern holds when we dig deeper into the numbers to look at the activity of the 15 individuals who have held the post of governor during this period (see Figure 2). Measured by average monthly communications, both Yi Gang and his predecessor Zhou Xiaochuan have spoken less frequently than most other central bankers and far less often than the most frequent speaker, Japan’s Haruhiko Kuroda. Together Zhou and Yi gave only 35 media interviews over this period and never testified before the NPC. Even though Yi communicated more frequently than Zhou (see below), both still fall in the bottom one-third of the group.

Figure 1: Communication with Markets by Several Central Bank Governors (January 2015 – June 2020)

Source: CSIS governors database.
Differences among central bank governors from the same locale are significant enough to make intra-region comparison tricky. For example, Brazil’s current central bank head, Roberto Campos Neto, communicates more frequently than his predecessor, Alexandre Tombini, who is the quietest of everyone we tracked. Canada’s two central bankers during this period also are not equivalent, but this may be because of Tiff Macklem’s recent appointment in May 2020.

DOLLARS AND SENSE: EXPLAINING DIFFERENT COMMUNICATION PRACTICES

Nevertheless, there are some important factors aside from governors’ personalities that explain patterns in how the central banks from China and the other countries communicate. One obvious difference appears to be among countries of different levels of wealth: central bank heads from richer economies, such as Japan, the Eurozone, and the United Kingdom, are the most communicative. Japan’s Haruhiko Kuroda leads everyone, with an average of 3.56 public communications per month, and both of the two EU governors also frequently speak to markets.

In addition to wealth, there are two other factors that affect central banks’ outspokenness: independence and policy transparency. Independence reflects a combination of four components: the central bank governor’s strength, the bank’s role in policymaking, the clarity of the central bank’s mandate, and the stringency of limits on lending to the public sector.

Drawing on a widely used index measuring central banks’ independence and our data on communications, we were able to compare the PBOC with the other seven banks. After examining the relationship between each component of central bank independence and central bank governor’s communication, we discovered a relatively strong correlation between the independence of central bank governors and the frequency of their communications. As Figure 3 shows, just eyeballing the relationship (though, admittedly, without holding any other factors constant), there appears to be a clear relationship between central bank governors’ strength and their outspokenness.

This makes intuitive sense. Strong central bank governors have long terms in office, are appointed by a board (and not a politician), are not subject to removal, and do not concurrently hold another office in government. By these criteria, China’s central bank heads are not institutionally strong. The PBOC only officially became China’s central bank in 1983. Since then, seven individuals have served as governor. Each was officially appointed by China’s premier but was truly chosen by the CCP’s Politburo Standing Committee or by the Party’s top leader.
The PBOC governor is subject to appointment and removal at any time. None of the seven have served a 5-year term contiguous with those of China’s political leaders. Some have held the post for only a brief time (such as Lu Peijian, Chen Muhua, and Zhu Rongji) and others much longer (such as Dai Xianglong and Zhou Xiaochuan—the latter held the post for over 15 years). Almost all of the governors have held concurrent positions. For example, Zhu Rongji was also a vice-premier, and Zhou Xiaochuan simultaneously was vice-chairman of the Chinese People’s Political Consultative Conference. Current governor Yi Gang does not hold another job, but another person, Guo Shuqing, is actually the PBOC’s
current Communist Party Secretary, meaning Yi does not have the final say on the bank’s own internal decisionmaking. The other factor we found that matters in determining the outspokenness of central bank leaders is the overall transparency level of central banks. Transparency has several components: political, economic, procedural, policy, and operational. As Figure 4 shows, there is a positive relationship between a central bank’s overall transparency and the verbosity of its central bank governor. In the case of China, it is no surprise that its transparency score is low in absolute terms and in comparison to others.

**FROM ZHOU TO YI: PERSONALITY AND INSTITUTIONAL CHANGE**

China’s longest-serving central banker, Zhou Xiaochuan, was highly respected both domestically and internationally. He was an influential market reformer, called by some “China’s most able technocrat.” Before replacing Zhou in March 2018, Yi was Zhou’s deputy at the PBOC for over a decade and thus earned a reputation as Zhou’s protégé. Yi is similarly considered a market reformer and is the PBOC’s first internationally educated governor or deputy governor. He received his doctorate in the United States (University of Illinois) and then taught at Indiana University-Purdue University Indianapolis (IUPUI). He returned to China in 1994 to be a professor at Peking University’s China Center for Economic Research and then joined the PBOC in the midst of the 1997-98 Asian financial crisis.

While the two governors share many characteristics, Yi has been a more active communicator than Zhou (Figure 5). In 2018 alone, Yi publicly spoke 32 times, which was double Zhou’s 2017 output. Zhou’s most active year was 2016, which is understandable as the post-stock market crash necessitated more actions and guidance from the PBOC. However, even in 2016, Zhou only spoke publicly 25 times.

Tellingly, the growing frequency of the governor’s comments has been accompanied by the PBOC’s overall greater public visibility. In 2019, the PBOC launched its official WeChat account, which Yi publicly stated was an attempt to strengthen the bank’s communication with the public. The increase in public visibility exemplifies the PBOC’s efforts to shift their overall communication strategy. One could attribute the differences between Yi and Zhou to contrasting personal preference. Zhou was more cautious about the central bank’s communication with the market. In his 2016 Michel Camdessus Central Banking Lecture to the IMF, Zhou pointed out the difficulty of communicating complex issues, such as monetary policy, to the public. Therefore, the PBOC emphasized communicating with experts and allowing that message to trickle down to the public. In contrast, Yi has stressed the importance of the central bank’s forward guidance and supported more communication with the public on various occasions, such as this 2019 commentary he penned.

That said, we should not exaggerate the impact of personal views. The PBOC has long recognized the need to more effectively communicate with the public. As early as 2013, while Zhou was still governor, three out of the four PBOC quarterly monetary policy reports listed “strengthen communication with the market and the public [and] stabilize market expectations” among the major policy plans moving forward. In early 2015, the PBOC published a short research article in its quarterly report that studied the idea of “forward guidance” through communication with the public. Starting in 2017, again

**Figure 5: Yi vs. Zhou: Comparing Their Communication Records**

<table>
<thead>
<tr>
<th>TYPE</th>
<th>Amount</th>
<th>Monthly Average</th>
<th>Percentage</th>
<th>Amount</th>
<th>Monthly Average</th>
<th>Percentage</th>
</tr>
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<td>29%</td>
<td>17</td>
<td>0.44</td>
<td>28%</td>
</tr>
<tr>
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<td>0.71</td>
<td>32%</td>
<td>24</td>
<td>0.62</td>
<td>40%</td>
</tr>
<tr>
<td>Speeches</td>
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<td>0.86</td>
<td>39%</td>
<td>19</td>
<td>0.49</td>
<td>32%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62</strong></td>
<td><strong>2.21</strong></td>
<td><strong>100%</strong></td>
<td><strong>60</strong></td>
<td><strong>1.54</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
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Source: CSIS governors database.
while Zhou was still governor, the phrase “communication with the market” began to appear more frequently in the PBOC reports. Internal advocacy has continued under Yi. For example, at a PBOC working meeting in September 2019, “improving policy releases, forward guidance, and communications with the market” was stated as a key working goal for the central bank.

The key to the PBOC’s changed behavior was likely less personal and more situational. The inconsistent and ambiguous communication to markets by the PBOC, the China Securities Regulatory Commission (CSRC), and other agencies contributed to the dual crises in China’s stock market and currency in 2015-16, which was reflected in a massive sell-off in the Shanghai and Shenzhen markets and the depreciation of the renminbi. In early 2016, following the CSRC’s ineffective use of a “circuit breaker” to slow the sell-off, Zhou Xiaochuan broke a multi-month silence with a wave of communication, including a long interview with the weekly business magazine Caixin, remarks at the G20 finance ministers meeting in Shanghai, and comments at the press conference during the NPC’s annual gathering. Yi also participated in the G20 meeting and at the NPC press conference; when he took over the governorship two years later, he continued and expanded on this new approach.

THE POLICYMAKING ROLE OF THE PBOC

China’s financial difficulties not only resulted in a consensus on the need for a new style of communication but also in regulatory restructuring.

In July 2017, President Xi Jinping spoke of the necessity to enlarge PBOC’s responsibilities on “macro-prudential management and systemic risk prevention.” More concrete steps came in March 2018, when the NPC officially passed the State Council’s institutional reform proposal that transferred the lawmaking power in the banking and insurance industries as well as the duty of prudential management to the PBOC, both of which were formerly responsibilities of the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC). In effect, the PBOC assumed a “dual pillar” policy function that would include both standard monetary policy and macro-prudential management. This dual-pillar function was formalized in October 2020 when China’s Central Bank Law was revised for the first time in 17 years, officially confirming the PBOC’s leading role in macro-prudential management and supervision of systemically important financial institutions.

At the same time that the PBOC’s responsibilities were expanded, its authority was challenged by the creation in July 2017 of a new super-regulator, the Financial Stability and Development Committee (FSDC). The FSDC is charged with supervising and coordinating the work among all of China’s various financial regulators, including the PBOC. Headed by Vice Premier Liu He, this regulatory body under the State Council brings together other senior officials, such as Ding Xuedong (deputy secretary-general of the State Council), Guo Shuqing (chair of the China Banking and Insurance Regulatory Commission), and Yi Huiman (chair of the CSRC). Ironically, the FSDC is physically located inside of the PBOC, and Yi Gang serves as the office chair, but this committee sits above the PBOC in the Chinese government hierarchy.

As a result of these changes, the PBOC has more to speak about but perhaps less authority to do so because of the existence of the FSDC. The PBOC contributes to policy discussions, but it is more a policy implementer than a setter. In reality, the bank is still highly subject to the influence of higher authorities in the government and CCP.

EXPLAINING YI GANG’S RELATIVE SILENCE IN 2020

Awareness of the PBOC’s constrained authority likely explains why Yi Gang has been more restrained since early 2020. In the first half of 2020, as governments around the world worked to combat the effects of the Covid-19 pandemic, central bankers from the other seven regions in our sample stepped up their communication (see Figure 6). Even Russia’s usually quiet central banker publicly spoke 14 times in six months. In contrast to everyone else, Yi spoke up less often than in years past.

Yi likely grew quiet because the PBOC’s voice is less authoritative in the context of China’s response to the pandemic. In the United States, the chair of the Federal Reserve and treasury secretary were both out front providing guidance on the country’s monetary response. But in China, the FSDC has had a more active public role in steadying the economy. One clear sign: the FSDC frequently met in 2020, convening for a total of 30 times in the year, compared to only 13 times altogether in 2018 and 2019.

In addition, monetary policy was not the primary tool in Beijing’s toolkit to battle this downturn. Having learned a lesson from the side effects of its 2008 stimulus package, Beijing was more restrained in 2020, relying less on massive local government borrowing from financial
institutions and more on the issuance of government bonds and fiscal outlays. With the PBOC taking a backseat, the Ministry of Finance has taken the lead in economic policy support this year by issuing a record amount of special-purpose bonds.

Even within the scope of monetary policymaking, others above the PBOC have piped in more. Premier Li Keqiang, who is often overlooked because of Xi, was the first to introduce the phrase “innovative monetary policy tool.” This principle stresses the need for monetary policy to reach the real economy; the PBOC took up this call, for example, in its 2020 Q2 monetary policy report, repeatedly emphasizing the aim of “precision drip irrigation” to direct monetary policy tools and financial institutions to support the real economy. Specifically, the PBOC has used a “special-purpose vehicle” to offer targeted credit to local banks, which in turn allow for deferred debt payments from small- and medium-sized firms.

Finally, in the crackdown on the Ant Group (China's biggest financial news of 2020), the PBOC has played only a minor role. The CSRC had no plans to interrupt Ant’s initial public offering in the fall, and the PBOC did not sound the initial alarm on the growing power of online financial actors such as Ant and WeChat. Apparently, only when Xi Jinping took exception to Jack Ma’s outspokenness did the bureaucracy jump into the fray, with the State Administration of Market Regulation (SAMR) launching an anti-monopoly investigation. The PBOC hosted a private meeting with Ant to discuss possible reorganization; afterward, Vice Governor Pan Gongsheng would only publicly say he thought Ant should “return to its roots” and focus on online payments. Yi Gang himself has kept to safer topics. In late October, he gave a speech that kept its focus on the PBOC’s general support for the economy, and in early December, Yi highlighted the bank’s support for greening the economy.

MORE ACTIVE, NOT AUTONOMOUS

As is the case in many aspects of Chinese policymaking, though some things have changed, the fundamentals have stayed the same. The PBOC is more aware than ever about the importance of communication and shaping market expectations, and it has taken on more regulatory responsibilities. As a result, China’s central bank governor and the deputy governors speak more often, and the PBOC has rolled out a variety of other tools, including social media, to reach audiences at home and abroad. We can expect the PBOC to continue to communicate about many issues, including monetary policy, the internationalization of the renminbi, the development of digital currency, the Cross-Border Interbank Payment System as a potential alternative to SWIFT, as well as traditional and new forms of financial institutions.

That said, increased communication does not equal enhanced autonomy or even greater transparency. The end goal of the PBOC communication is not to generate policy debates, show transparency, or be held accountable before the public, but rather to convey the decisions made by more senior officials. For its words to matter more, it would need greater independence, which would be reflected in a narrower policy mandate, greater authority in its areas of responsibility (such as interest rates), and syncing its decisionmaking schedule and communications strategy.

But despite talk of central bank reform and more frequent communication, there has been less change than meets the eye. As a result, we may see the PBOC governor and his organization speak more frequently, but with no greater influence than his predecessors.

APPENDIX

The core information for this brief comes from our novel “governors database” of eight central bankers’ public communications from January 2015 through June 2020. To be comprehensive, we scoured the websites of the central banks themselves, other government agencies, international economic organizations, and the media.
For consistency’s sake, our database only includes communications by the central bank governors themselves; we do not include comments by their deputies or statements from the banks. Technically, the European Central Bank only represents the 19 EU countries that have adopted the euro as their currency. Although this group is often referred to as the “Eurozone,” we use it and “European Union” interchangeably.

Data on central banks’ independence comes from Garriga, which is derived from the widely used index created by Cukierman, Webb, and Neyapti. Their index is based on central bank legislation from 182 countries from 1970 to 2012 and evaluates central bank independence based on an aggregated weighted calculation of 16 indicators in four areas: the independence of the central bank governor themselves (“CEO”), the central bank’s objectives, policy formulation, and the central bank’s lending practices.

Data on central banks’ transparency is derived from the work of Dincer and Eichengreen, who provided a transparency index for countries by summing their scores for answers to 15 questions about five different elements of transparency: political, economic, procedural, policy, and operational.

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