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Regionally Diversified Monetary Policy

Articles in our Policy Forum series are commentaries on current political issues. They reflect the opinion of the authors and – although researched to our best knowledge – are not scientific papers. If there are CFDS papers on related issues, they will be referred to in the text.

In recent years, the major central banks of the West have started expanding their original mandate of price stability, most notably maybe with Christine Lagarde's ambition to conduct a "green" monetary policy. Contrarily, the People Bank of China (PBoC) has traditionally followed a broader agenda, supporting a wide array of the Chinese leadership's economic objectives.

China has experienced astonishing development during the last four decades. The eastern coastal area benefited more from the early open policy because of its location and the development strategy of China. In the initial decades, the implications of the growing spatial inequality were attenuated because living standards in the rural Chinese hinterlands still increased considerably through trickle-down effects. However, these regions benefited to a substantially lesser degree. The increasing heterogeneity has become one of the major issues in the Chinese political landscape over time. Apart from the poverty in the hinterlands being perceived as a more pressing issue as the catching-up process slows, the considerable heterogeneity also poses an obstacle for policies that are in their very nature nationwide, such as monetary policy. Consequently, conducting a monetary policy that has a differentiated effect across the country's regions and in doing so support the government's poverty alleviation schemes became one of the PBoC's major objectives.

Conventional economic wisdom suggests that this is impossible and that monetary policy can and should do little to fight poverty and inequality. The



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previous chairman of the federal reserve Ben Bernanke once summarized, “Monetary policy is too blunt a tool to be routinely used to address possible financial imbalances.” Chairman Janet Yellen later confirmed this statement. So, it does not come as a surprise that - to our best knowledge - there are no countries in the world except for China that have tried implementing monetary policies with the underlying objective to support poverty alleviation.

The anti-poverty policies dated back to the 1980s, and poverty alleviation became the primary objective of the new Chinese leadership in 2013. In recent years, the major concern of the People’s Bank of China has been to promote the success of the national government’s strategy for poverty alleviation in the hinterland while simultaneously preventing the real estate bubble in the densely populated eastern areas from inflating any further by controlling for the credit supply. In other words, the PBoC aimed to simultaneously conduct expansionary policies in some parts of the country while tightening monetary policy in other regions. To this end, the PBoC has implemented a wide range of novel policies that allow a more targeted monetary policy to counterbalance the adverse effects of increased macroprudential regulations on the poor regions.

Instruments include supporting a loan by providing guarantees, collaterals, or subsidies and by the PBoC lending to commercial banks or creating a regulatory framework that allows the banking-led poverty reduction. However, the policy supporting poverty alleviation was not conducted through a single well-defined policy. A recent CFDS working paper develops several indicators on targeted monetary policy, based on text scraping the PBoC’s Monetary Policy Implementation Reports (MPIR) for recurring keywords related to agriculture/rural (8 keywords), poverty (3 keywords), development (3 keywords), regional (4 keywords), and finance (1 keyword), see Table 1 for keywords. Figure 1 shows the occurrence of the search terms in the MPIR between 2000 and 2019. Both the generally increasing importance of development-related terms and the sudden increase of poverty-related terms starting in 2013 when the central government started its focus on poverty alleviation are striking.

Chinese	English
<i>Agriculture</i>	
三农	short for agricultural sector, rural areas and rural residents ²
农村	rural/rural areas
涉农	agro-linked
支农	support agricultural sector, rural areas and rural residents
农业	agriculture
农林牧渔	agriculture, forestry, animal husbandry and fishery
农民	farmer/rural residents
农户	rural households
<i>Poverty</i>	
贫困	impoverished
脱贫	poverty alleviation/poverty reduction
扶贫	poverty alleviation/poverty reduction
<i>Finance</i>	
普惠金融	inclusive finance
<i>Development</i>	
政策性	policy ³
开发性	development oriented/develop
欠发达	less-developed
<i>Regional</i>	
区域性	regional
区域发展	regional development
区域协调	balanced regional development
区域经济	regional/regional economy

Table 1 Keywords for monetary policy related to poor regions

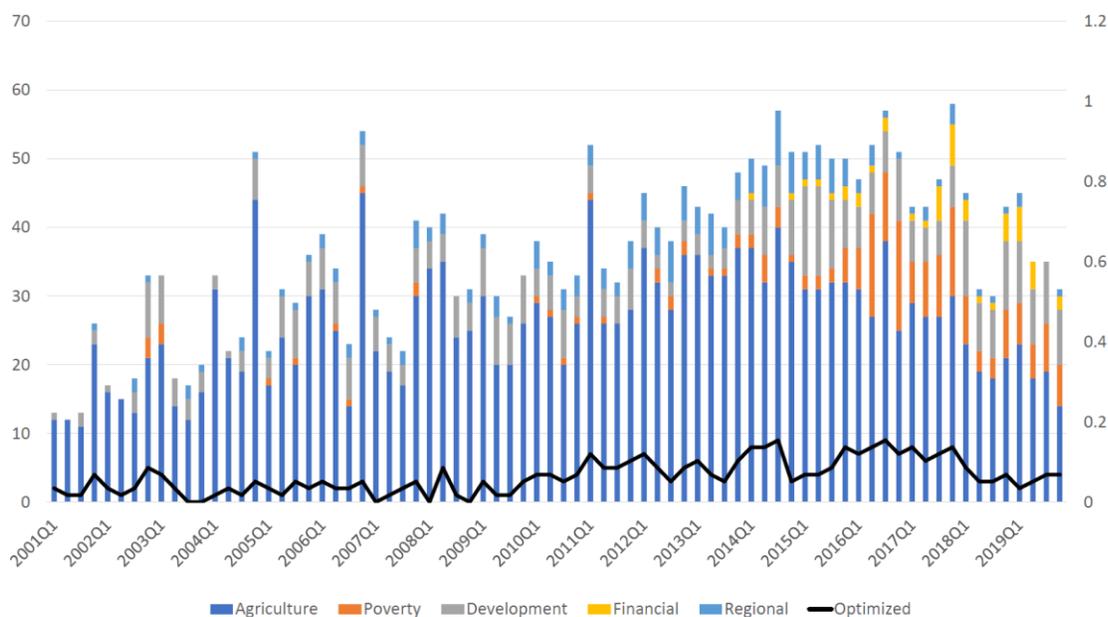


Figure 1: Keyword occurrences by report

An increase of the best performing indicators (that only uses the three words 支农(Agriculture), 农民 (Agriculture) and 贫困 (Poverty)) by one standard deviation creates additional loan growth of about 1.5 percentage points in counties that are flagged as poor according to the list of Key Counties for National Poverty Alleviation and Development.

These findings show that the PBoC did indeed successfully implement a regionally diversified policy. Moreover, the measures it implemented were scaled in regional development and were able to target specifically selected counties. As a result, the PBoC opened a new world that the monetary policy could serve as a subtle tool to address issues like reducing poverty and inequality.

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