CHINA NEWS

Chinese Leaders Discuss Replacing PBOC Chief

Potential Move Reflects Disagreements Over Fiscal Steps, Xi's Plan to Place More Allies in Top Offices

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Chinese leader Xi Jinping is considering replacing central bank chief Zhou Xiaochuan. The WSJ's Lingling Wei tells Deborah Kan about why Beijing may be looking for a new steward for the world's second-largest economy.

BEIJING—Chinese leaders are discussing replacing the central bank chief amid disagreements over the direction of financial policy, raising questions over how quickly and deeply Beijing wants to remake the economy amid slowing growth.

Chinese leader Xi Jinping is considering removing Zhou Xiaochuan—the face of the Chinese economy to markets globally—as part of a wider personnel shuffle that comes after internal battles over economic overhauls.

The discussions occur as Mr. Xi, now two years in office, tries to place more allies into top positions in the government, military and Communist Party, said party officials with knowledge of the plans. The personnel shifts are expected around a major party conclave to be held in October, the officials said, while cautioning that no final decision about Mr. Zhou has been made.

Over the past few months, Mr. Zhou has continued to press for market changes, including liberalizing interest rates. The Chinese leadership, meanwhile, has become concerned that overhauls now will place another burden on an economy that is struggling to meet the government's target of 7.5% annual growth.

One reason to retain Mr. Zhou is fear of the market reaction to his departure, the party officials said. Removing him could add to uncertainty about the direction of China's economic-policy making and the strength of the leadership's commitment to overhauls, said the party officials, at a time when many other parts of the global economy are sputtering.

People's Bank of China Gov. Zhou Xiaochuan, shown in a June photo. *Reuters*

Removing Mr. Zhou "could suggest a subtle shift in the balance of power between reformist and reactionary forces, with the momentum for change being eroded by the loss of growth momentum in the economy," said Eswar Prasad, a China expert at Cornell University.

The top contender to succeed Mr. Zhou at the People's Bank of China is Guo Shuqing, a former banker and top securities regulator who is currently governor of Shandong, a prosperous eastern province, the officials said. Mr. Guo, a longtime friend of Mr. Zhou, is also considered a reformer. But it remains to be seen whether he would push for overhauls as hard as Mr. Zhou has been, Chinese officials and scholars said.

Slow Motion

China has pledged to open up its financial system to market forces. But progress has been slow.

Interest-Rate Liberalization
•Banks freed to set lending rates
•Deposit rates still fixed at 3.3%
•Bank deposit insurance under discussion

Shanghai Free Trade Zone
•Opened in September 2013
•Regulations still being written

Within the central bank, word of Mr. Zhou's possible departure has been water-cooler talk for weeks, said PBOC officials and advisers. They were especially surprised when Mr. Guo unexpectedly and unusually attended a monthly meeting convened by the secretariat of the central bank's monetary-policy committee on Sept. 16, said the PBOC officials and advisers.

Also in attendance were economists from some of China's biggest securities firms, who provided the central bank with

State Enterprises
•Sinopec is selling 30% of gas-station subsidiary

Private Banks
•Pilot project to create five private banks
•Licenses still pending

Foreign Exchange
•Doubled trading band in March to 2%
•Central bank has intervened heavily to drive down yuan

Foreign Investment
•Announced plans to allow greater foreign access to Chinese stocks

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their views on the steps policy makers should take to rev up economic activities. Mr. Zhou often doesn't attend the monthly meeting and didn't this time.

President Xi named Mr. Zhou to a third term in March 2013, despite the central banker having passed the retirement age of 65 for senior Chinese officials. He is now 66 years old.

Mr. Zhou is perhaps China's best-known economic official. He represents China at meetings of the International Monetary Fund and Group of 20 leading nations and plays tennis with central bankers and senior economic officials.

He and Lawrence Summers, U.S. President Barack Obama's then-chief economic adviser, once jokingly bet when they played doubles against each other that the winner of the match would set the U.S.-Chinese foreign-exchange rate. (Mr. Summers lost and asked for a rematch.)

Early in his most recent term, Mr. Zhou accumulated greater influence than he had under Mr. Xi's predecessors. Mr. Zhou's allies were given prominent roles in Mr. Xi's economic-policy making bodies, and Mr. Zhou's ideas of freeing up interest rates and cross-border capital flows were reflected in party and government policy documents.

But as the Chinese economy continued to lose momentum this year, the PBOC came under increasing pressure to help spur the economy by providing credit—or ordering banks to do so.

So far, the central bank has been aiming its stimulus narrowly, to avoid a broad-based lending spree such as the one that propped up growth following the 2008 global financial crisis but also saddled the economy with debt and bad loans. Other government agencies, though, are calling for across-the-board cuts in interest rates.

Guo Shuqing is the top contender to succeed Mr. Zhou at the People's Bank of China, party officials say. *Bobby Yip /Reuters*

Messrs. Zhou and Guo couldn't be reached for comment. In a statement to The Wall Street Journal, the PBOC said Mr. Zhou wouldn't be stepping down soon.

The Communist Party's Organization Department, which controls personnel decisions for key government posts, declined to comment.

Should Mr. Zhou be replaced, his departure would be portrayed as a matter of his age, said the party officials, although only 18 months have passed since his latest reappointment.

But there are larger policy issues involved. Mr. Zhou kept pressure on leaders to stick with changes even if doing so diminished the growth rate.

While the government and party in principle backed the idea of letting bank deposit rates float freely, for instance, Mr. Zhou tried to nail down a date for lifting government controls, a move he has said is critical in forcing banks to compete and allocate credit more efficiently.

In March, he said the goal could be achieved in two years, and on July 10 reiterated that goal. That was out of tune with top leaders. Two weeks later, the State Council, the government's top decision-making body, said the shifts would be carried out in an orderly way—usually code words for moving slowly.

Top party leaders are also considering splitting the roles of PBOC governor and party chief after Mr. Zhou departs, the officials said. Currently, Mr. Zhou has both jobs.

Leaders considered such a plan in late 2012, with Mr. Zhou remaining as PBOC chief and someone else taking the party job, but they viewed the idea as unworkable because it could be seen as a demotion for Mr. Zhou. In China, party officials generally outrank government officials in an organization. Still, splitting the PBOC job could lead to confusion about who runs the institution.

In China, the central bank—known locally as "yang ma," or "Big Mama"—isn't independent. For major decisions, it needs approval from the State Council, and sometimes the ruling seven-member Politburo Standing Committee, the inner sanctum of party power.

"Everybody seems to be interested in talking about reform, but they really fear what they are professing to love," said Zhang Xiaohui, head of the PBOC's monetary-policy department, in a May 2014 meeting, according to a transcript of her remarks viewed by the Journal.

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