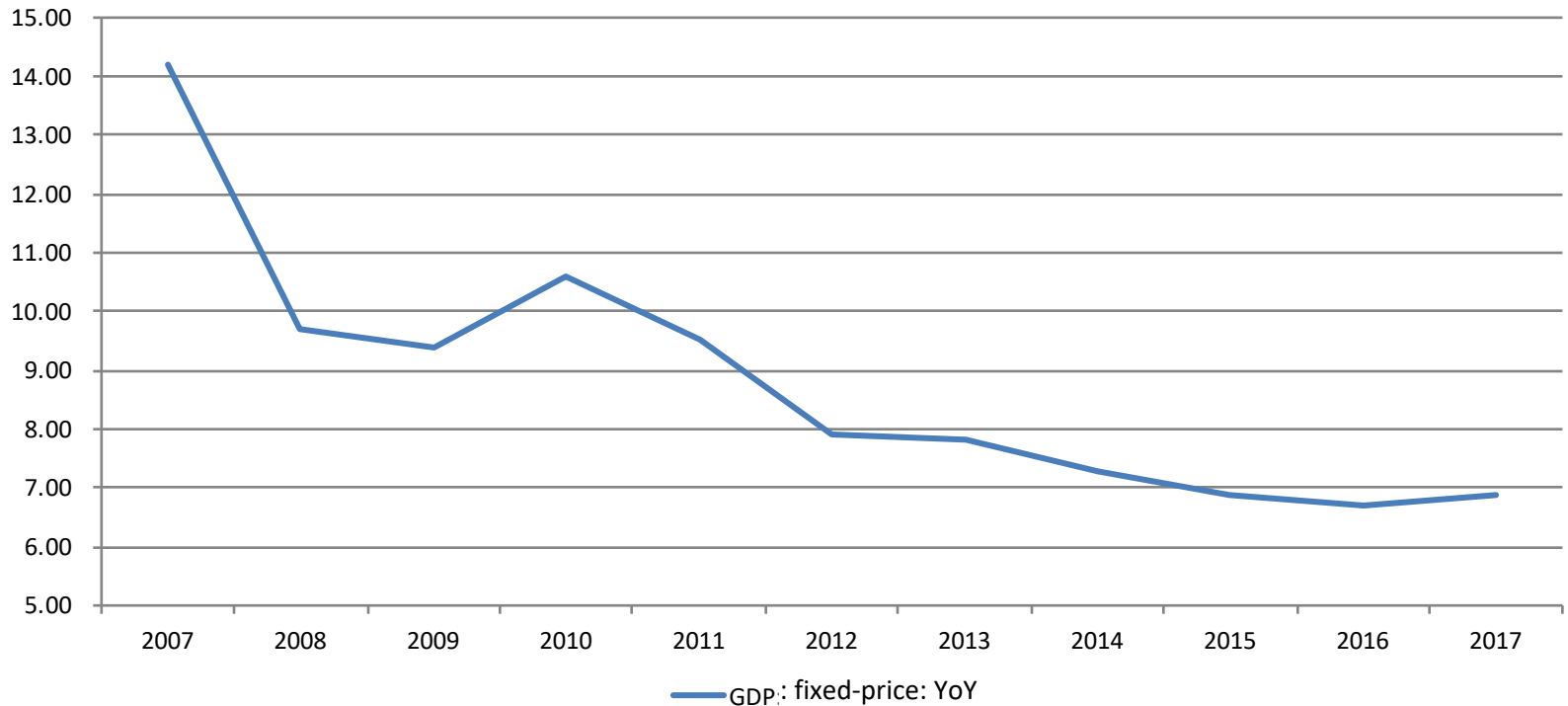


**Major challenges facing China's monetary  
policy after the global financial crisis:  
Growth-phase transition**

WU Zhenyu

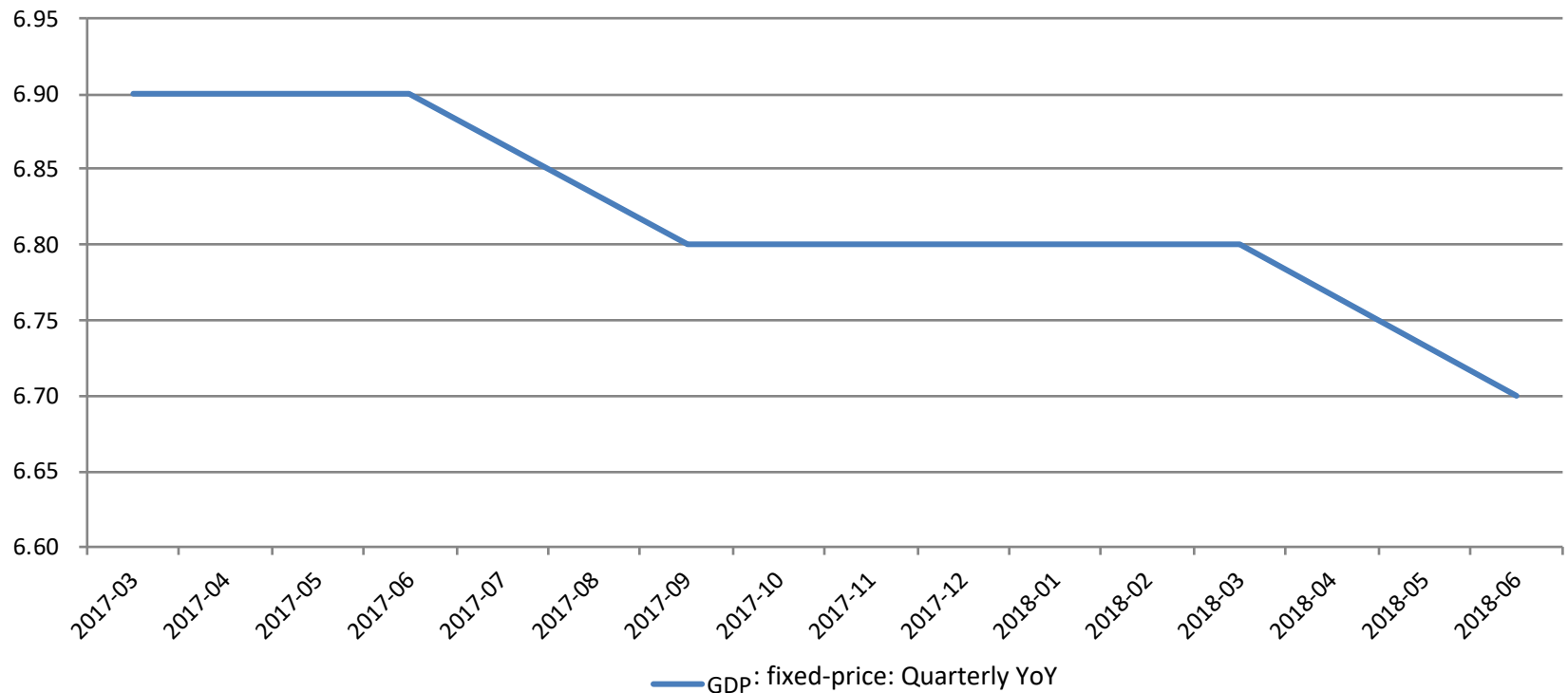
October 24, 2018

The fundamental macroeconomic environment facing China's monetary policy after the global financial crisis broke out is the continued downward movement of economic growth.



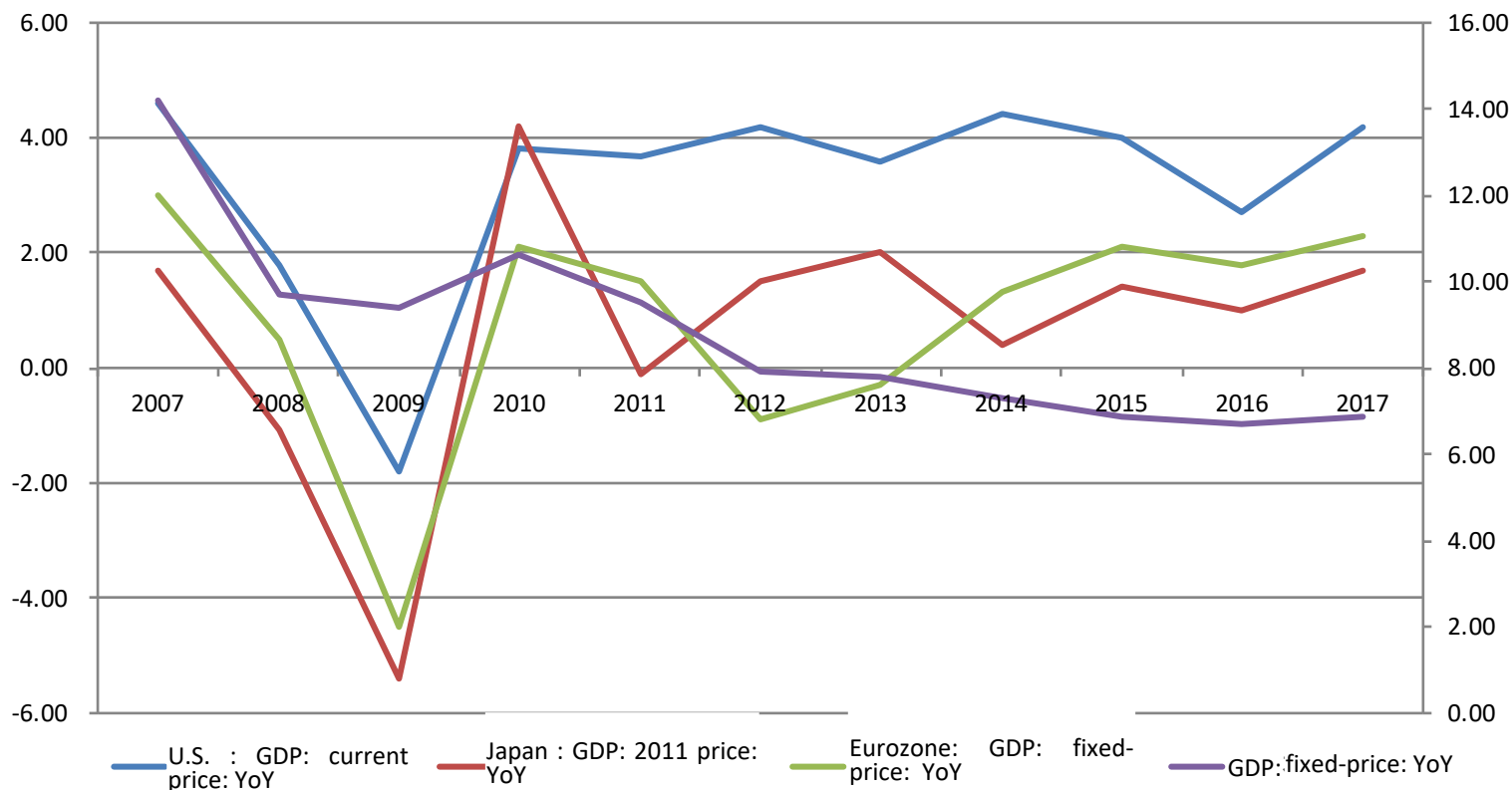
Source: Wind

Currently, the downward trend has not stabilized, and will impact on the formulation of monetary policies in recent years.



Source: Wind

After the global financial crisis broke out, the focuses and connotations of China's monetary policy normalization are different from those of other major economies.

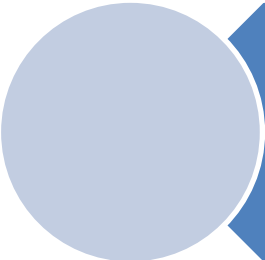


Source: Wind

# Three major challenges facing China's monetary policy since 2008



1. Respond to the impact of the global financial crisis.

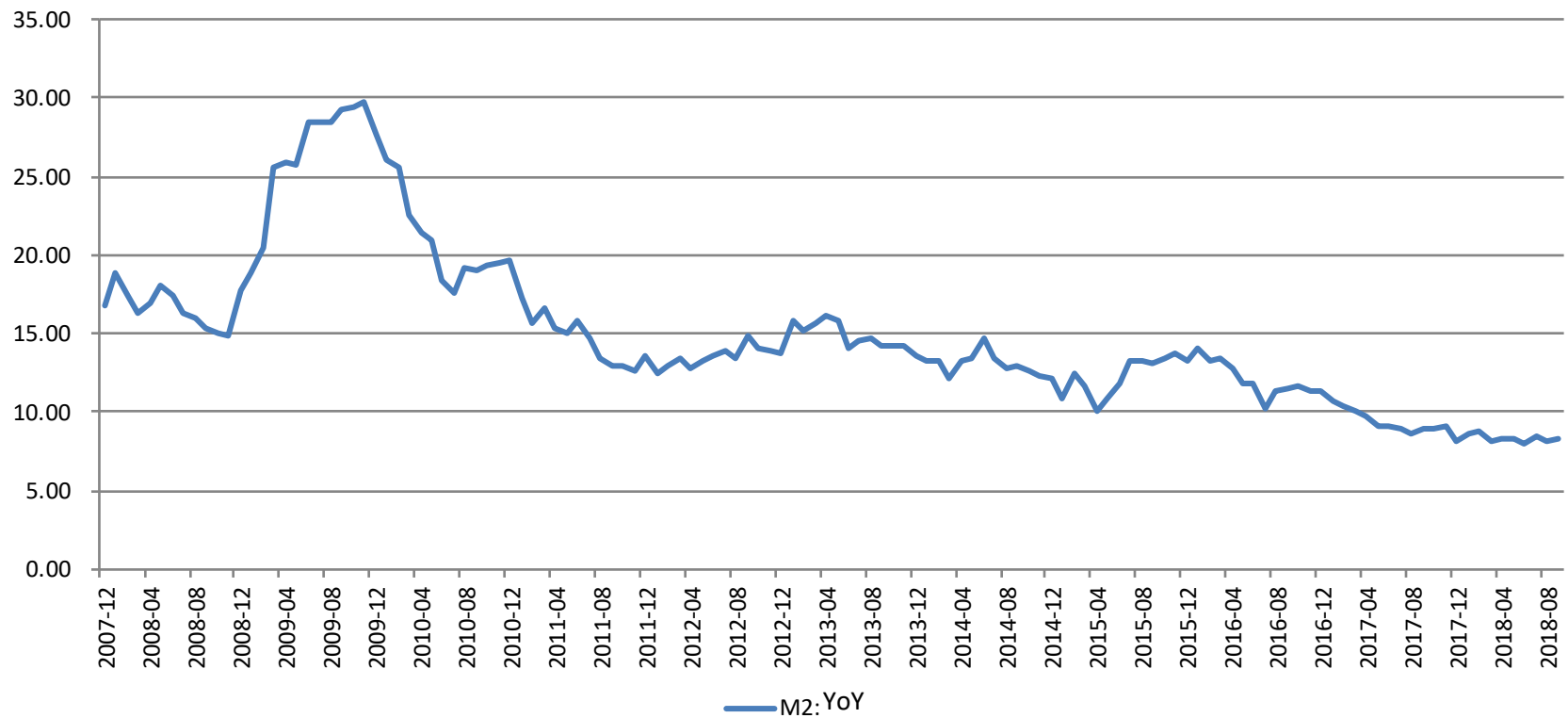


2. Deal with the downward economic growth brought about by the transition of the growth phase.



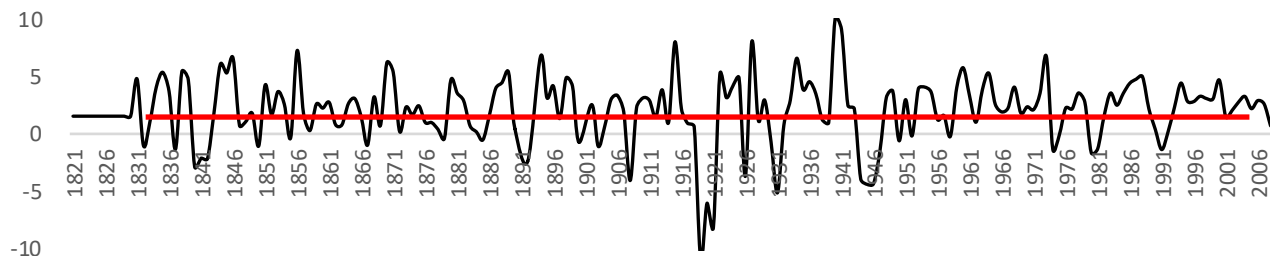
3. Continue advancing economic and financial reforms.

The global financial crisis has been effectively dealt with by raising the speed of currency issuance, but the impact of the resulting excessively high M2/GDP ratio is still continuing.

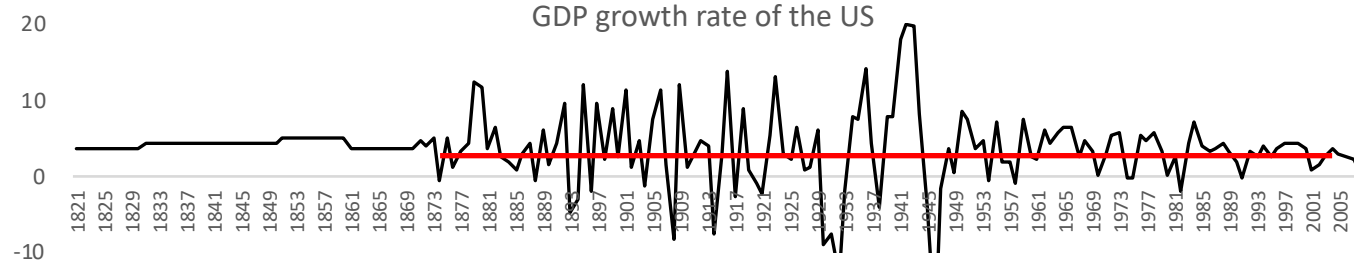


Source: Wind

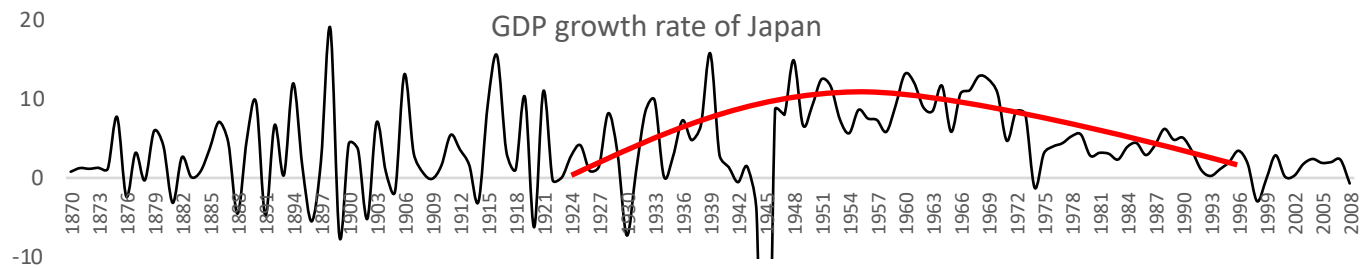
GDP growth rate of the UK



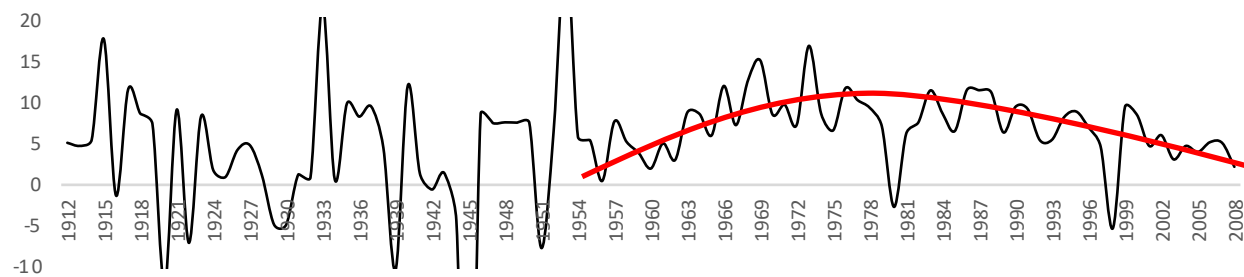
GDP growth rate of the US



GDP growth rate of Japan



GDP growth rate of South Korea



The growth of latecomer countries has different stages, which form a “catch-up cycle”

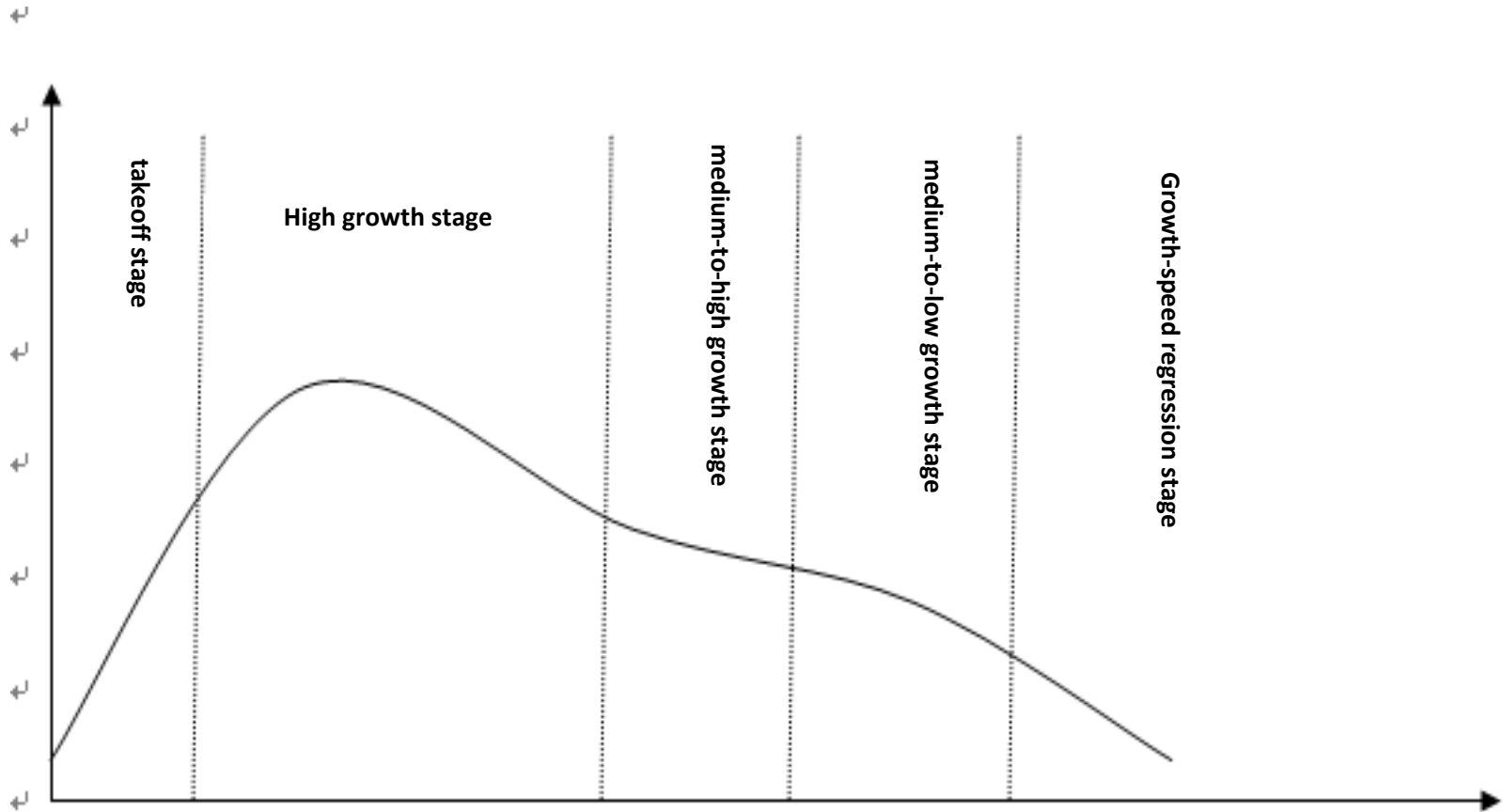


Figure 2: Five stages in the catch-up cycle



## Estimates on the Future: Five stages of China's catch-up cycle

Stages	Growth momentum	Duration	Performance (example: China)	Industrial features
Takeoff stage	High accumulation and structural switch	Indefinite, usually short	----	Traditional industries
High-speed growth stage	High accumulation and structural switch	20-30 years	8-10%	Traditional industries
Medium to high growth stage	Accumulation and technology expansion	Around 10 years	6-8%	Capital- and technology- intensive enterprises
Medium to low growth stage	Accumulation and technology innovation	Around 10 years	4-6%	High technology and emerging industries
The growth regression stage	Original technology innovation	---	2-4%	High technology and emerging industries

## Special advantages of China in catch-up process

- The transitional characteristics from a planned economy to a market-based economy enable China to have more dividends from institutional improvements after the transition in the growth phase.
- The huge market space provides favorable conditions for China to cultivate new industries and enhance international competitiveness.
- Unbalanced development between urban and rural areas and regions contains new impetus for economic growth.

## Challenges facing China in the catch-up process

- First, domestic demand will significantly raise the prices of international bulk commodities, which will constrain China's development.
- Second, as China is a large producer of the world, the international market has relatively insufficient demand, which restricts the expansion and release of China's production capacity.
- Third, after the transition of the growth phase, its large population and the large size of its economy will make it impossible for one or two high-growth industries to support the medium- and high-speed economic growth, and innovations and breakthroughs need to be made in a wider range of fields.

## Existing new challenges bring about opportunities and challenges

- The international economic structure has undergone major changes. The share of developing countries in the global economy exceeds that of developed countries and will provide new space for demand.
- The development of the Internet and other new technologies has created conditions for China to achieve higher potential growth.
- Global value chain adjustment has increased pressures on China's efforts to expand the international market.

## Assessing three problems facing the current economic growth

- First, from the perspective of the economic growth cycle, the current economic growth does not reflect China's economic growth potential.
- Second, from the perspective of relevant policies targeted at stabilizing the economic growth, these policies have also boosted economic growth performance.
- Third, from the perspective of the furthering of reforms, the potential of economic growth has not been fully unleashed.

## Major direction of monetary policy in the near-medium term

- From the perspective of the near-medium term, the main direction of monetary policy is to stabilize the economic growth rate and promote economic restructuring. In the current context of reducing macroeconomic leverage ratio and strengthening the financial regulation, especially facing the uncertainties of the international economic and trade environment, this target is even more challenging.

**THANK YOU!**

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