# China's Yi warns on currency wars as yuan in 'equilibrium'

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The deputy governor of China's central bank signaled he's comfortable with the yuan's exchange rate and urged Group of 20 nations to improve collaboration if so-called currency wars are to be avoided.

"Right now, it is pretty much close to the equilibrium level," Yi Gang said in an interview at the World Economic Forum's annual meeting in Davos, Switzerland. On a global level, there needs to be "better communication and coordination" on foreign exchange among G-20 countries.

Debate has reignited as Japan's new prime minister, Shinzo Abe, pushes for laxer monetary policy, sparking a slide in the yen. Bundesbank President Jens Weidmann has warned against "increasing politicization of the exchange rate" that might undermine the Bank of Japan's independence.

At the same time, criticism over China's exchange rate regime has abated in recent months. Lawrence Summers, the former top economic adviser to U.S. President Barack Obama, said Jan. 14 that China's yuan is no longer as undervalued as it was five years ago. The currency has appreciated about 17 percent against the dollar since the end of 2007.

Yi said that he expects China's current account deficit to narrow, which would slow the accumulation of foreign reserves.

## Foreign Reserves

China's foreign-exchange reserves, the world's largest, rose the least since 2003 last year, according to data published Jan. 10. The holdings increased to $3.31 trillion at the end of December from $3.18 trillion a year earlier. Reserves may rise to $3.45 trillion this year, according to the median estimate of 16 economists in a Jan. 24 Bloomberg survey.

"Accumulation of official reserves would be slower and converging to a more or less stable level," Yi said.

Earlier, during a panel discussion, Yi said that "for the foreseeable future probably we still have the potential of 7 to 8 percent growth." Growth will be mainly be led by domestic demand "as people's income continues to increase."

China is seeking to shift from exports and investment to a consumer-driven economy and achieve a more sustainable growth trajectory than the rates of 10 percent and more over the past decade. At the same time, the Communist Party leadership headed by Xi Jinping needs to head off any social unrest.

The rising wages fueling gains in Chinese consumption are eroding the nation's role as the world's low-cost manufacturer. Twenty-five provinces raised minimum pay by an average 20.2 percent last year, the Ministry of Human Resources and Social Security said on Jan. 25.

## Single-Digit Growth

Yi's growth estimates are in line with projections from the nation's statistics bureau, which show that the world's second-biggest economy is entering a period of slower growth as the working-age population declines and resources become more scare.

"China's double-digit growth is no longer the norm" and its traditional model is no longer sustainable, Zeng Peiyan, a former vice premier in charge of economic planning, said at a forum in Beijing yesterday. The nation is "entering a single-digit phase of growth," said Zeng, who now heads the China Center for International Economic Exchange.

China may grow 7.8 percent to 7.9 percent in the first quarter, Zhang Xiaoqiang, the deputy head of the National Development and Reform Commission, said in an interview in Davos yesterday. That compares with the 8.1 percent median estimate in a Bloomberg News survey of 30 analysts this month and 7.9 percent in the fourth quarter.

## QE Infinite

Yi, who also heads the State Administration of Foreign Exchange, said he's concerned about the potential fallout from quantitative easing in the world's advanced economies.

"Quantitative easing for developed economies is generating uncertainties," he told reporters in Davos.

The foreign-exchange regulator has renewed concerns that China will see fresh speculative inflows of money after the U.S. and Japanese central banks said they would pump more funds into their financial systems.

"The policies in major economies of monetary easing and low interest rates will boost global liquidity, increase risk preferences in the market and drive speculative funds into China," SAFE said in a statement on its website on Jan. 25.

Speaking in Beijing, Lou Jiwei, head of the country's sovereign wealth fund, said he expects loose monetary policies to continue.

"When everybody talks about whether the U.S. will have a QE4, I say no," Lou, chairman of China Investment Corp., said at a forum. "The feature in the future is called QE infinite. Global central banks will adopt an infinite QE policy."