



China's Monetary Policy Since 1948

Joanne Guo, Ph.D.
School of Business
University of Bridgeport, Bridgeport, CT

Abstract

There is a dearth of literature on the modern monetary history of China. This paper is the first to trace the origin of China's foray into modern monetary policy.

I chronicled the development of monetary policy in China since the PBC was established in 1948.

I proposed a set of recommendations for China's monetary authority to consider.

Key Questions

It is important to trace the beginnings of China's modern monetary policy in order to understand how the country manages its growing economy.

This is because the core of modern market-based economy is the role of the central bank linking the real economy to the practice of monetary policy to affect aggregate demand and economic growth.

How did China's monetary policy went from obscure to a dominating force in the global economy?

How should the government manage its monetary policy going forward in order to reach its goal of stable prices and sustained economic growth?



Main Arguments

Allows for further understanding of the PBC's actions, and for market participants to anticipate and manage risks associated with China's monetary policy, financial markets, and economy in the future.

By maintaining **stable currency**, the People's Bank of China intends to achieve two goals:

1. Price stability
2. Economic growth (target 2019 growth rate = 6%)

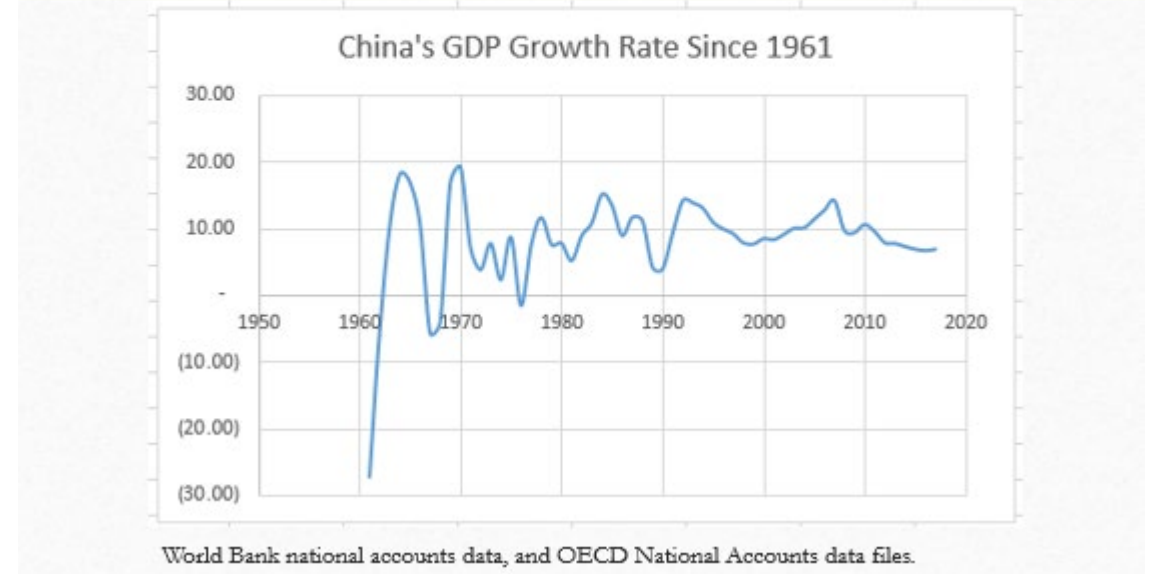
The 4 phases of monetary development that shaped China's monetary policy today:

1. 1948 – 1984
2. 1984 – 1993
3. 1993 – 1998
4. 1998 – Present

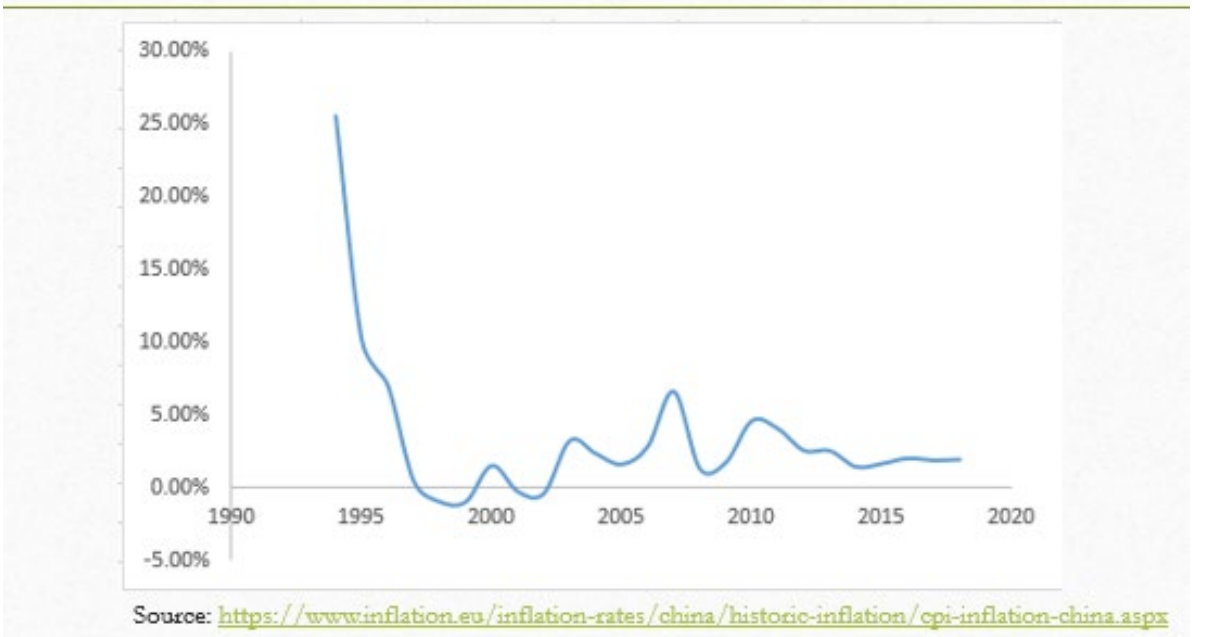
Monetary Policy Instruments:

- Required reserve ratio
- Central bank base interest rate
- Rediscounting
- Central bank lending
- Open market operations
- Other policy instruments specified by the State Council

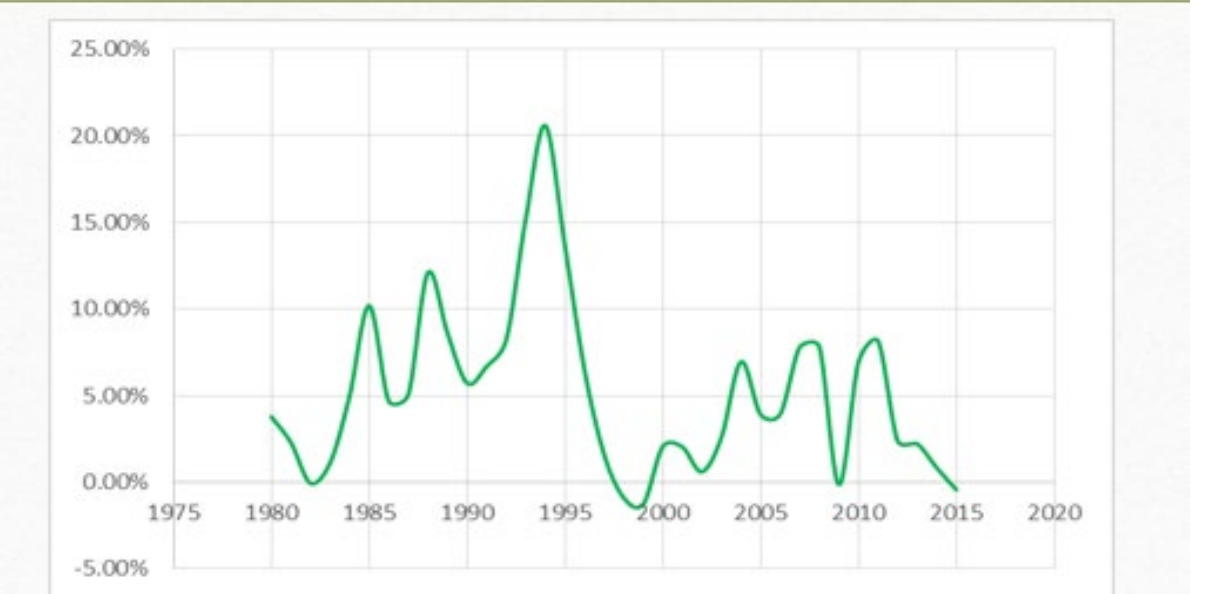
China's Growth Rate Since 1980



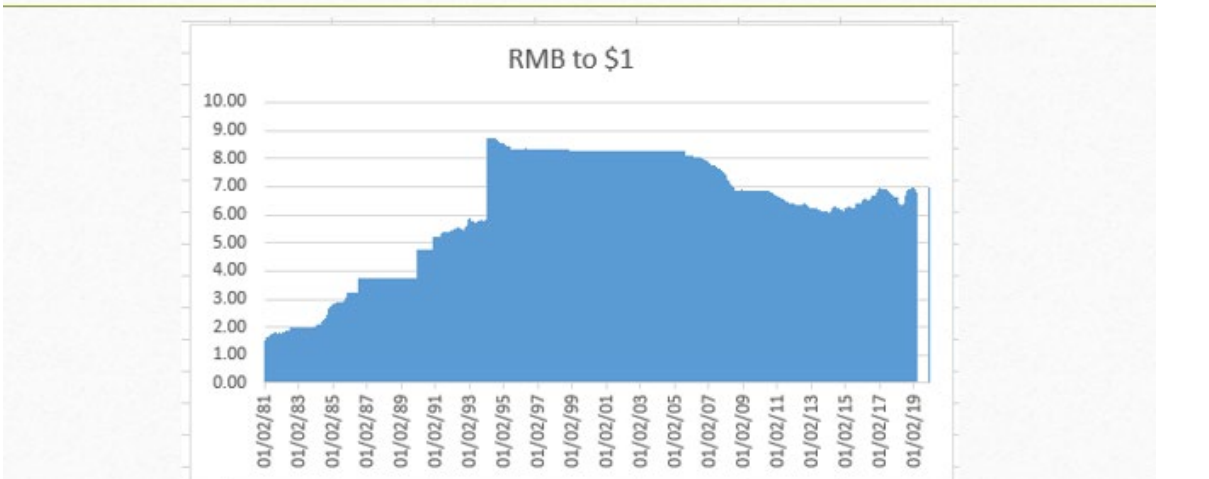
China's Annual Inflation Rate Since 1994 (Percentage Change in CPI from December to December)



China's GDP Deflator Annual Percentage



Daily RMB to \$1 Spot Rate Since 1981



References

<https://www.inflation.eu/inflation-rates/china/historic-inflation/cpi-inflation-china.aspx>

<https://www.inflation.eu/inflation-rates/china/historic-inflation/cpi-inflation-china.aspx>

World Bank national accounts data, and OECD National Accounts data files.

Conclusion & Recommendations

- Expand capital markets to more participants, including foreign entities.
- Increase exchange rate flexibility and the convertibility of its currency.
- Have a more market-oriented **interest rate** by further reform its money markets.
- Implement a Taylor Rule to adjust nominal interest rate.