## Adhere to the goal of stable currency value, implement a sound monetary policy

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"Financial life, economic life; financial stability, economic stability", "To maintain stable and healthy economic development, we must do a good job of finance." General Secretary Xi Jinping requires a full understanding of the important role and role of finance in economic development and social life. Do a solid job in financial work. The Fourth Plenary Session of the 19th CPC Central Committee proposed that to adhere to and improve the basic socialist economic system and promote high-quality economic development, we must "strengthen the construction of the basic system of the capital market and improve the modern financial system with high adaptability, competitiveness and inclusiveness. To effectively prevent and resolve financial risks. "

Currency is the blood of the financial system, and China's monetary policy is an important part of the national system and national governance system. Monetary policy is closely related to every enterprise and every family. It is about the "vote" in everyone's hands and the vital interests of the broad masses of the people. "Every move and uncontrollable currency is a useless move." Standing in the historical direction of the new era, whether it is adhering to and improving the socialist system with Chinese characteristics, advancing the modernization of the national governance system and governance capabilities, or taking advantage of China's system Better transformation into national governance effectiveness and firmly grasping the important strategic opportunity period for China's development in promoting high-quality economic development require us to adhere to the goal of currency stability and implement a sound monetary policy.

**I. Origin and Objective of Monetary Policy from Historical Evolution**

"Developing the financial industry requires learning from foreign useful experiences, but it must be based on China's actual conditions and accurately grasp the characteristics and laws of China's financial development. Correctly grasp the nature of finance.

From a global perspective, monetary policy has undergone roughly three stages of evolution since the Great Depression of the 20th century.

The first stage was before the 1980s. There were many monetary policy goals, mainly to stimulate economic growth, and eventually there was a serious "stagflation". Economists such as Keynes believe that there is a stable correlation between economic growth (declining unemployment) and rising prices, which means that as long as higher inflation is tolerated, higher economic growth can be obtained. Therefore, the monetary policy goals at that time were many and focused more on economic growth. However, advanced economies relying on monetary stimulus to achieve high growth has not been successful. In the 1970s, the United States and other developed countries experienced the well-known "stagflation" problem, that is, economic stagnation and high inflation occurred at the same time. At that time, the average annual price increase in the United States exceeded 10%, and corporate failures, bank failures, and unemployment rates all hit first. New heights after World War II.

The second stage was the international financial crisis from the 1980s to 2008. Anti-inflation became the main target of monetary policy. The economy grew rapidly, but financial stability was ignored. During this period, maintaining price stability became the main or sole goal of monetary policy. In general, monetary policy has achieved significant results in anti-inflation. In addition, economic globalization and technological advancement have improved the economic supply side, and global high inflation has been effectively alleviated. Major developed economies have welcomed low inflation and high growth The "Great Relief" era. However, while focusing on price stability, the central bank ignored financial stability. Before the outbreak of the international financial crisis in 2008, although the price indices of some developed countries were fairly stable, the prices of commodities and assets have soared, and systemic risks have accumulated. The loose monetary conditions created by staring at low inflation have also contributed to asset bubbles and financial risks to a certain extent. These have become important factors that have triggered the international financial crisis.

The third stage is that since the international financial crisis in 2008, the world has focused on improving the financial regulatory framework and strengthening macro-prudential management. Monetary policy has once again turned to stimulate economic growth, but the effects of ultra-loose monetary policy face new challenges. Since the outbreak of the international financial crisis, major developed economies have implemented unprecedented monetary stimulus, ranging from conventional monetary policies such as interest rate cuts to unconventional monetary policies such as zero interest rates, quantitative easing, forward-looking guidelines, and even negative interest rates. These policies have effectively hedged the impact of the crisis and prevented the downward spiral of the economy and prices. However, in the medium and long term, it may also delay the internal adjustment process of the economy and exacerbate structural problems. In recent years, interest rates in major advanced economies have fallen significantly faster than economic growth and inflation, and the effects of interest rate cuts and quantitative easing have been diminishing. Due to the high debts of major developed economies, insufficient growth momentum, and lingering deflationary pressures, unconventional monetary policies are becoming "normalized."

Why are the effects of these unconventional monetary policies in developed countries worse than expected? First, fundamentals such as economic growth trends are determined by important economic structural variables. For example, an aging population will lead to slower potential economic and productivity growth, increased savings, lower consumption and price levels; technological progress will also lead to lower price levels, and the degree of economic globalization will also have an important impact on the decline in labor costs. But none of these factors can be changed by monetary policy and low interest rates. If the driving force for reform and adjustment is reduced due to loose monetary policy, the problem will be delayed. Second, in the absence of growth points, the central bank provides liquidity to the banking system, but commercial banks cannot lend funds and easily flow to the asset market. Loosening monetary conditions is generally beneficial to asset holders. Ultra-loose monetary policies may exacerbate wealth differentiation, distort the solidified structure, and make the process of crisis adjustment longer. Third, the zero interest rate and negative interest rate policies will narrow the spread, squeeze the banking system, and weaken the motive force of bank money supply.

The effectiveness of monetary policy largely depends on the guidance and control of expectations, which is also an important manifestation of the credibility of the central bank. At present, many central banks in the world use inflation targeting as the anchor of monetary policy to guide the public's expectations. Most developed countries have 2% as their inflation target, and some developing countries have targets higher than 2%, such as 3% or 4%. If affected by the above-mentioned fundamental factors, the objective and true trend of long-term inflation in a country is 1%, and the central bank sets the inflation target to 2% to guide expectations, and guides it through loose monetary policy. . The correct approach is that the central banks of each country determine the inflation target according to the actual situation in their country. From 1% to 4% may be a reasonable choice. For example, the optimal inflation target for developed countries and population aging economies may be 1% or 1.5%, and developing countries and young population economies may choose 3% or 4%. Some economies with persistently high inflation can also Inflation targets are set higher, such as over 4%. Monetary policy (such as the determination of inflation targets) can stabilize and guide the expectations of the public to a certain extent, but only if such guidance is not far from the trend determined by economic fundamentals. Such a monetary policy is in line with reality and effective of.

The evolution of the above monetary policy framework is also a process in which human society continues to explore and deepen its understanding of monetary policy. The historical background of each historical stage is different, and the main contradictions faced are different. Monetary policy has played an important role in general, but sometimes it is not timely and powerful, and sometimes it goes too far. The key is to clarify responsibilities, positioning, and goals, neither fearful nor overbearing.

Since the reform and opening up, in the process of developing a socialist market economy, we have proceeded from China's actual situation and adhered to the essential attribute of monetary policy to maintain currency stability, to create a suitable monetary and financial environment for reform, development, and stability, and to effectively cooperate with other policies. Obtained important regular knowledge.

First, monetary policy needs to focus on economic growth without over-stimulating economic growth. From the perspective of world history, monetary policy has been used as a means to pursue economic growth, and even hopes to tolerate higher inflation in exchange for higher economic growth. However, practice has shown that such an idea is difficult to achieve and may even result in "stagflation". Monetary policy seems to only affect demand in the short term, but it will affect supply and economic structure in the medium and long term. Excessive use may leave complex “sequelae”. According to the actual situation, we should grasp the policy objectives and policy intensity.

The second is to adhere to the fundamental goal of currency stability. At the same time, the central bank must strengthen the goal of financial stability and better combine the maintenance of currency stability and financial stability. Keeping the currency stable and thus creating a suitable monetary environment for economic growth is the fundamental goal of monetary policy. According to the development of the situation, we should explore ways and methods to determine and measure the price level more scientifically and reasonably. At present, China's financial system and asset market are huge and prone to procyclical fluctuations. Therefore, we must strengthen macro-prudential policies to better maintain the stability of the financial system.

Third, monetary policy cannot stand alone, and it needs to cooperate with other policies. To achieve sustained and healthy economic development, coordination and coordination between different policies is essential. In the face of economic and financial problems, the key is to find the root cause of the problem and provide the right medicine. We must have a deep understanding of the possible changes in the transmission mechanism of monetary policy. The main function of monetary policy is to maintain short-term demand balance and avoid economic ups and downs, and economic growth basically depends on structural adjustment and technological progress.

**Second, the mission and responsibility of China's monetary policy in the new era**

Socialism with Chinese characteristics has entered a new era, and China's economy has also shifted from a high-speed growth stage to a high-quality development stage. China's development is still in the period of important strategic opportunities, and the fundamentals for the long-term improvement have not changed. Effectively maintaining the period of important strategic opportunities for China's development, as far as financial work is concerned, it is necessary to return to its roots, obey service to economic and social development, and take the prevention of systemic financial risks as the eternity of financial work, as stressed by General Secretary Xi Jinping theme. To this end, monetary policy must find the mission of the times and fulfill the responsibilities of the times.

First, adhere to the people-centered development ideology. Judging and measuring monetary policy basically depends on whether it is in the interests of the broadest masses of the people. It is the mission of monetary policy to protect the money in the hands of ordinary people, keep the currency stable, and promote economic growth in this way. The ticket in the hands of ordinary people cannot be changed to "hair", and it is worthless. Appropriate monetary conditions can promote wealth growth, and inappropriate monetary conditions may exacerbate wealth differentiation and financial risks, and even cause social problems. It should be seen that maintaining a positive interest rate and maintaining a normal, upward-inclined yield curve are generally conducive to providing positive incentives for economic entities, consistent with the traditional culture of interest-saving Chinese people, and moderate to savings, and economically. Sustainable development of society. Under the circumstances that the world economy may be in a long-term downward adjustment period, it is necessary to make good preparations for the "middle and long-distance running" and try to maintain a normal monetary policy for as long as possible in order to maintain an important strategic opportunity period for long-term development and the fundamental interests of the broad masses .

The second is to persist in promoting high-quality development. At present, China's economic cyclical and structural problems are superimposed on each other, but it is mainly a problem of structural contradictions and development methods. For this reason, the core of China's economic development is the transformation of development methods and the adjustment and optimization of economic structure. Structural adjustment and optimization is the only way to high-quality development. We must respect economic laws and not simply talk about heroes in terms of GDP growth. As far as monetary policy is concerned, it is necessary to adapt to changes in the rate of economic growth during the stage of economic development and structural adjustment, and to grasp the orientation and intensity of the aggregate policy. Too tight a policy will exacerbate the contraction of aggregate demand and economic downturn; too loose a policy may solidify the distortion of the structure, push up debt and accumulate risks. In the process of supply-side structural reform, monetary policy, which has traditionally been the aggregate policy, can also play an active role in guiding structural adjustment and optimization, enhancing the pertinence and effectiveness of the policy. At the same time, excessive use of structural policies may also cause aggregate problems. This requires that monetary policy always be kept tight and appropriate, strengthen pre-adjustment and fine-tuning, and create a suitable monetary environment for high-quality development.

The third is to persist in serving the real economy and prevent and mitigate systemic financial risks. At present, monetary policy better serves the real economy by focusing on deepening financial supply-side structural reforms, improving incentives and compatibility mechanisms, curbing financial destabilization and ignorance, and directing more financial resources to the real economy, especially weak links. In the process of economic structural adjustment, the risks accumulated in the early stage will inevitably come to the fore. At the key points that may trigger systemic risks, the central bank must make a precise effort to fulfill its role as the lender of last resort, fight against the major risks, and defend the bottom line against systemic financial risks. At the same time, we must strengthen macro-prudential policies, consolidate responsibilities in all areas, and work together to play a supporting role in preventing and controlling systemic risks. During the process of economic restructuring, deleveraging, and risk prevention, small and micro enterprises and private enterprises have been greatly affected by stages, and financing difficulties have become more prominent. Comprehensive measures need to be taken to effectively increase support for small and micro enterprises and the private economy. Enhance the driving force for endogenous economic growth.

**3. Grasp the key points for implementing a sound monetary policy**

General Secretary Xi Jinping pointed out profoundly, "We must deepen our understanding of the nature and laws of finance, base ourselves on China's reality, and take the road of financial development with Chinese characteristics." The People's Bank of China will persist in serving the real economy, prevent financial risks, implement a sound monetary policy, and focus on creating a suitable monetary and financial environment for supply-side structural reforms and high-quality development.

First, the total amount is moderate. As the economy changes from high-speed growth to high-quality development, we must grasp the orientation and intensity of the total amount policy. In recent years, China ’s GDP growth rate has gradually decreased from about 10% to 6.2% in the first three quarters of this year. During the same period, the growth rate of broad money (M2) has dropped from about 13% to 8.4%, and the growth rate of social financing has dropped from about 15%. 10.8%. Monetary policy was adjusted in a timely and appropriate manner in accordance with changes in the situation, and remained generally stable. In 2016, China's economy stabilized. At the same time, there were more problems in the financial market in terms of leverage and capital idling. The People's Bank of China implemented a stable neutral monetary policy, which effectively suppressed debt inflation while promoting the stable operation of the economy. Since 2018, in response to the credit contraction caused by internal and external factors, the People's Bank of China has taken timely and proactive actions. It has reduced the deposit reserve ratio seven times, significantly increased the medium and long-term liquidity supply, and maintained reasonable and adequate liquidity. Effective hedging pressure on credit contraction stabilized market expectations. Monetary policy has well balanced the relationship between stable growth, structural adjustment, and risk prevention. In the next stage, we must continue to implement a prudent monetary policy, keep monetary conditions matched with the requirements of potential output and price stability, implement good counter-cyclical adjustments, maintain reasonable and adequate liquidity, and moderate tightness, and continue to create a suitable monetary environment.

The second is precision drip irrigation, which guides the optimization of liquidity and credit structure, and supports key economic areas and weak links. In recent years, the People's Bank of China has continuously innovated and enriched structural monetary policy tools, created medium-term borrowing facilities, standing borrowing facilities, and small re-loans for agricultural and agricultural support, and used targeted reductions to give play to the countercyclical adjustment and structural guidance of macro-prudential assessment. Function to optimize the structure and layout of liquidity. Since 2018, in response to the financing difficulties encountered by small and micro enterprises, especially private enterprises, in the process of credit contraction, they have focused on unblocking the transmission of monetary policy in a market-oriented and rule-of-law manner, and "three arrows have come together" in promoting credit, bonds, and equity financing. Increasing re-loans and rediscounts provide long-term stable funding for small and micro enterprises and private enterprises, launching private enterprise bond financing support tools, and researching and establishing private enterprise equity financing support tools. The financial sector's support for small, micro, and private enterprises has significantly increased. In the next stage, we must continue to make good use of structural monetary policy tools, create and improve policy tools as needed, unblock the transmission of monetary policy, make up for shortcomings, strengths and weaknesses, and support economic structure adjustment and optimization.

The third is to make concerted efforts to improve the dual-pillar regulatory framework of monetary policy and macro-prudential policy, and better maintain the stability of currency value and financial stability. Strengthening macro-prudential policies is an important global consensus on financial management reform after the international financial crisis. Monetary policy is mainly aimed at the overall economic and aggregate issues, focusing on economic and price level stability; macro-prudential policies can directly and centrally affect the financial system or a financial market, curb financial cyclical fluctuations, and prevent cross-market risk contagion , Focusing on maintaining financial stability. The two can complement and strengthen each other to form two pillars. China has better conditions and foundations in macro-prudential management. After the international financial crisis, it has taken the lead in practice and exploration in the world. In 2011, the People's Bank of China began implementing a dynamic adjustment mechanism for differential reserves to guide credit back to normal and prevent risks that might arise from excessive credit growth. Later, it upgraded to a macro-prudential assessment system to assess and guide the soundness of financial institutions in a more comprehensive and multi-dimensional manner, and expanded from focusing on loans to generalized credit in the past. It also included off-balance-sheet financial management in the assessment of generalized credit. Considering that cross-border capital flows are prone to procyclical fluctuations, a macro-prudential management framework for cross-border capital flows has been established, and counter-cyclical controls have been implemented through market-based means to prevent large capital movements from impacting macro stability. Adhere to the "house is used for living, not for speculation" positioning, in accordance with the policy of the city, strengthen the macro-prudential management of the real estate financial market, strengthen the monitoring of the overall real estate financing situation, comprehensive use of multiple tools for real estate Financing is counter-cyclical. At present, the People's Bank of China has established a dedicated department for macro-prudential management. It is strengthening macro-prudential management of systemically important financial institutions and financial holding groups. In the future, it will gradually expand the coverage of macro-prudential management and improve the organizational structure of macro-prudential management. To better prevent and resolve financial risks.

The development and growth of private enterprises are inseparable from the strong support of finance. In recent years, the financing environment for private small and micro enterprises has continued to improve. At the end of the third quarter of 2019, the balance of inclusive small and micro loans was 11.27 trillion yuan, an increase of 23.3% year-on-year, and the growth rate was 0.8 percentage points higher than that at the end of the previous quarter. The picture shows on August 20, 2019, employees of the Rural Commercial Bank of Pengjie Town, Luqiao District, Taizhou City, Zhejiang Province, are visiting the company and providing loan services for them. People's Pictures

Fourth, deepen reforms, strengthen market-based interest rate formation, transmission, and regulation mechanisms, and optimize financial resource allocation. Interest rate is the price of funds, and interest rate leverage is the basis for market-oriented allocation of financial resources. In recent years, China's interest rate market-oriented reform has been steadily pushed forward, and the gradual release of regulated interest rates has helped promote the gradual transformation of monetary policy toward price-based regulation. The reform of interest rate liberalization, while "opening up", also pays more attention to "formation" and "adjustment." In recent years, the People's Bank of China has continued to operate on the 7-day repo rate, released policy signals, established and improved the interest rate corridor mechanism, and played the role of standing interest rates for convenient lending as the ceiling of the interest rate corridor. Establish a daily operation mechanism for the open market to further stabilize market expectations. In recent years, the transmission efficiency of the central bank's operating interest rate to bond and loan interest rates has gradually improved, and market players are more sensitive to changes in interest rates. At present, we are steadily promoting the "two-track integration" of regulated interest rates and market interest rates to further unblock the market-oriented monetary policy transmission mechanism. In August 2019, a new pricing mechanism for loan market interest rates was introduced. The loan market quoted interest rate was formed based on the medium-term lending facility interest rate. Through market-oriented reforms, the implicit lower limit of loan interest rates was broken, and real loan interest rates were reduced. We will use bank perpetual bonds as a breakthrough to replenish capital and enhance our ability to sustainably support the real economy. In response to the legal, regulatory, and accounting obstacles faced by banks in issuing perpetual bonds, the People's Bank of China communicated with the China Banking and Insurance Regulatory Commission, the Ministry of Finance, the State Administration of Taxation, the Legal and Industrial Commission of the Standing Committee of the National People's Congress, and other departments, and also submitted to the Basel Banking Supervision Committee. After consultation, we proposed countermeasures. In January 2019, the first bank's perpetual bonds were successfully issued, and as of the end of September, 455 billion yuan had been issued. The bank is expected to improve significantly, and the pressure on social credit contraction has eased.

Fifth, promote internal and external equilibrium, improve the market-based RMB exchange rate formation mechanism, and maintain the basic stability of the RMB exchange rate at a reasonable and balanced level. In the context of economic globalization and an open macroeconomic structure, a flexible exchange rate mechanism is a stabilizer for responding to external shocks and achieving internal and external equilibrium. In recent years, the People's Bank of China has further strengthened the mechanism based on market supply and demand and adjusted with reference to a basket of currencies, and has gradually formed a market-based mechanism for the formation of a central parity rate between the RMB and the US dollar. At the same time, promote the development of the foreign exchange market and improve the self-regulatory mechanism of the foreign exchange market. Significant results have been achieved in the reform of the exchange rate marketization. The international balance of payments has become more balanced. The People's Bank of China has withdrawn from normalized intervention. The marketization level and flexibility of the RMB exchange rate have significantly increased, and it has maintained a stable position in the international monetary system. It should be emphasized that the RMB exchange rate is determined by market supply and demand. We will not instrument the exchange rate and will never engage in competitive devaluation of "neighborhood". In the next stage, the People's Bank of China will continue to promote the reform of the RMB exchange rate marketization mechanism, maintain exchange rate flexibility, and implement the necessary macro-prudential management when the market shows signs of procyclicality, to keep the RMB exchange rate basically stable at a reasonable and balanced level.

At present, the internal and external situations we face are complex and changeable, and opportunities and challenges coexist. From an international perspective, after the financial crisis, major developed economies implemented unprecedentedly loose monetary policies, and it was difficult to withdraw near the "zero interest rate" state, and unconventional monetary policies were forced to "normalize." Analyzing the orientation of the monetary policies of developed countries in the United States, Europe, Japan, and major developing countries in the next few years, we can make the following judgments: In the next few years, major economies that can continue to maintain normal monetary policies will become a bright spot in the global economy And the enviable place of the market. China's economic growth is still in a reasonable range, and inflation as a whole remains at a relatively moderate level. In addition, we have the institutional advantages of a socialist market economy, and we should maintain normal monetary policy for as long as possible. Even if the monetary policies of the world's major economies are approaching the direction of zero interest rates, we must adhere to steady progress and precision, and not engage in competitive zero interest rates or quantitative easing policies, and always adhere to good monetary policies to maintain currency stability and protection. The original mission of the well-being of the overwhelming majority of the people. At the same time, we should take the initiative to continue to adhere to the main line of supply-side structural reforms, continuously improve the financial macroeconomic control mechanism, and pay more attention to the important role of active fiscal policies in optimizing structure, reducing taxes and fees, and forming a supply system, a demand system, and The mutually supportive triangular framework of the financial system maintains a sound posture for the steady and healthy development of China's economy.