

Central bank governor emphasizes deposit reserve requirement ratio control

Due to complex external situations and the fact that public rational expectation is hard to archive, China's central bank still needs various tools for monetary policy adjustment, said Zhou Xiaochuan, governor of People's Bank of China (PBOC), the central bank. "Adjust and control measures such as deposit reserve requirement ratio and interest margin should be emphasized."

The central banks generally look forward to the simplification of control measures for monetary policy adjustment. In recent decades, economists believed that communication with the public was the most important factor in controlling inflation. "However, the objective world is not that simple, and China still needs various tools in its monetary policy adjustment tool kit," Zhou said.

Zhou noted that in case of economic crisis, a single tool may not work well, while the rational expectation that the public faces grave challenges in the security market and the real estate market.

China's capital market is not mature yet and investors' experiences are very limited. "Hence the central bank may need more tools, other than communication, to implement its monetary policy," he said.

"Some foreign countries believe that deposit reserve requirement should be abandoned. But facing an international payment imbalance and hedge against foreign exchange position, China needs to emphasize deposit reserve requirement control," Zhou said, adding that interest margin control should also be stressed, due to the financial institutions' profitability during the period of system transformation and risk judgment.

China's monetary policy, as part of the country's macro control policies, has four major aims, namely low inflation rate, economic growth, relevantly high employment rate and a rough balance of international payments, Zhou explained.

*By People's Daily Online*