

# Study on the Independence of China 's Central Bank

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**Abstract:**At present, strengthening the independence of the central bank is the trend of the world, but also a major trend of national bank legislation. Since China's reform and opening up, the independence of China's central bank has been increasing. But there are still many problems. After studying the historical development and the present situation of the independence of banks in the world, this paper analyzes the reasons for the low degree of independence of the central bank of China and puts forward some suggestions on improving the independence of the central bank.

## 1. Introduction

The independence of the central bank should match with the country's economic development level, social and economic system and other national conditions. Generally speaking, the independence of central bank refers to the extent to which the central bank is not subject to the political influence of the government. And it can independently implement monetary policy. At present, there are two issues to be agreed: First, the independence of the target and tool independence; Second, internal independence and external independence. In addition, there are still some views on the independence of the central bank relative to the financial market.

Target independence refers to the ultimate goal that the central bank can freely develop monetary policy. If the regulations do not stipulate or specify the central bank's objectives, the central bank has a greater discretionary power, which has a greater independence of the target. Tool independence refers to the monetary policy after the final goal of the final decision, the central bank has the right to decide what kind of monetary policy tools to carry out what they think fit operation to achieve its objectives.

## 2. Discussion On the Independence of Central Bank

### 2.1A Study on the Independence Model of Central Banks

After World War II, countries summed up the lessons learned and gradually realized that if you want to maintain the stability of your currency and the steady development of the economy, there must be a relatively independent central bank, and the formation of the following three models:

#### 2.1.1 Independence of the strong model

The strong independence model is divided into two cases

One is that the central bank is directly responsible to Congress and can independently develop and enforce monetary policy. The government can not directly command it, can not directly interfere with the formulation and implementation of monetary policy. This is the most independent model, the typical countries are

Germany, the United States and the European Union.

Another case is that central bank is nominally subordinate to the financial sector, but in practice, it has a relatively strong independence in essence. The central bank can not be affected by the Ministry of Finance, the most typical of which is the United Kingdom.

### **2.1.2 Independence of the weak model**

In this model, the central bank, whether in the organizational management of the affiliation, or in the formulation and implementation of monetary policy, was subjected to government control strictly. The government has the absolute power to veto the central bank's resolution. The typical example of that was South Korea .

### **2.2 A Study on the Independence of Central Banks in Developed Countries**

- ① To achieve a higher central bank independence is the consensus of all countries
- ② The degree of the independence of the central bank depends on the political and economic system of each country
- ③ The independence of the central bank is relatively independent. Currently, independence is mainly stressed the relative independence between the government and central bank.
- ④ The main objectives of national monetary policy is stabilizing currency

## **3. The Current Situation of China 's Central Bank Independence and Development Suggestions**

### **3.1. The characteristics of the independence system of the central bank of China**

The existing central bank is characterized by being independent, but not fully independent. And it is a "relatively independent" situation.

### **3.2. The Current Situation of the Independence of China's Central Banks**

The central bank reform is a part of the reform of China's financial system. The main goal of the reform is to build the bank into a market-oriented macro-control institution and a financial regulatory agency. One of the main contents of the reform is to improve the independence of the central bank.

Since the promulgation of the Law of the RPC in 1995, the independence of the PBOC has been increasing continuously, but its independence is still relatively low. The specific performance include:

- ① The PBOC only enjoy the decision-making power of general monetary policy matters. For the annual money supply, interest rates, exchange rates and other major monetary policy matters, the PBOC only had the right to develop and enforce it. The final decision-making power is in the hand of the State Council.
- ② Central bank loans to financial institutions too much, this kind of entanglement relation prevents the steps of the central bank to enhance independence.
- ③ The legal status of the PBOC is low. The Law of People's Bank of China stipulates that the PBOC which is under the leadership of the State Council, formulating and implementing monetary policies to prevent and defuse financial risks and maintain financial stability. The law clearly stipulates that the PBOC is part of the central government.

### **3.3. The Existing Problems of the PBOC to Improve the Independence**

To sum up, it is not difficult to get the reasons of the low independence of PBOC:

#### **3.3.1 The political behavior of the central bank is strong**

As with most countries in transition, China has a very strong centralization tradition. And government dominates both social and economic life, especially in financial control.

#### **3.3.2 External constraints of financial reform**

It relates to our political system structure, involves people's social values, involves a social political and economic decision-making power of the relative dispersion. It is an important part of the political system reform.

#### **3.3.3 Low efficiency support of state-owned financial**

State-owned financial support is the country's support for the economic development of the state-owned sector in terms of some non-efficiency principle. It includes direct financial and indirect financial support. There are three kinds of policies, credit discrimination policy, capital supply system and financial subsidy policy.

#### **3.3.4 The lack of credit awareness**

Because of the shortcomings of social credit consciousness and the non-normality of credit relationship under the old system. China has not yet established true national credit, bank credit and commercial credit in the whole society. There is no healthy credit awareness and standardize the credit relationship, there is no real standard of the market economy system.

### **3.4 Measures to improve the independence of the PBOC:**

While drawing lessons from the historical experience of other countries, We should pay attention to the national conditions to put forward the appropriate measures.

- ① Strengthen the political status of the central bank, improve political independence. The ultimate goal is to be independent of the government, limiting the government to the central bank improper administrative intervention.
- ② It is important to pay special attention to the mutual communication and work coordination between monetary authorities and the banking regulatory authorities.
- ③ There are two requirements for us to balance the central bank and the financial market. On one hand, the central bank should maintain a certain degree of independence in financial markets. On the other hand the central bank must be in our country to establish a well-run financial markets to provide supervision and services.

### **3.5 The Importance of Improving the Independence of China 's Central Bank**

① The central bank is independent sufficiently to ensure the stable development of the market economy.

The independence of the central bank provides a system guarantee for stabilizing monetary policy. In some cases, rational behavior does not yield the desired results as expected, in which case the purpose of achieving effective results is achieved by means of appropriate guidance or arrangement.

② The independence of the central bank plays an important role in the government's economic decision-making.

The development of the market economy should not be made by the government to

make any decision regardless of the existence of market rules. In this respect, the government's behavior also needs to be bound.

#### **4. Summary**

The central bank plays an important role in stabilizing the currency and financial markets of a country. With the further deepening of the trend of economic globalization, the central bank plays a more and more important role in economic development.

In order to play the role of the central bank better, strengthening the independence of the central bank is essential. Setting up a completely independent central bank in China is unrealistic. We should focus on how to strengthen the independence of the central bank, rather than setting up an thoroughly independent central bank.

We should combined with the reality of the country fully. The establishment of central bank system must keep in line with the national conditions, so that it can play its due function and role in economic development and financial stability .

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