



Boao Forum for Asia Annual Conference 2017

Session Summary (No. 52)

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Session 32

Testing the Limits of Monetary Policy

Time: 09:00 a.m. to 10:15 a.m., March 26, 2017

Venue: ICC, Level 1, Dong Yu Grand Ballroom A

Moderator:

Peter HARTCHER, Political Editor & International Editor, The Sydney Morning Herald

Panelists:

Shaukat AZIZ, Former Prime Minister, Former President of Citibank Private Banking

Ian JOHNSTON, Chief Executive, Dubai Financial Services Authority

David Daokui LI, Dean, Schqarzman College, Tsinghua University

Masai TAKAKO, Member of the Policy Board, Bank of Japan

ZHOU Xiaochuan, Governor, Central Bank, China

Key points:

- Never depend too much on monetary policy, for monetary is not a cure-all. Excessive dependence will causes consequences. Each policy has the functions of its own and the right tools should be selected.



- After QE monetary policy for years, China is coming to the end of the current cycle. Global economic recovery goes on at different speeds in different countries. In another word, global market is not completely coordinated, and so is monetary policy.
- Financial crisis results from collective suppression. If we drink too much alcohol overnight, we will feel much depressed when waking up the following morning and we will have to drink coffee. Just like the coffee we drink in the morning, monetary policy can relieve our collective repression.
- The effect of monetary policy is being gradually weakened. Monetary policy is a responsive policy. When economy has any problem, the central bank can take a responsive policy.
- With digitalization, the cash amount declines sharply. The public all uses electronic money or other digital money and money is all in the account. Thus, banks may charge negative rates. Under the circumstance of economic downturns, negative rate may become a better choice and more useful than helicopter money.
- Structural reform must be comprehensive and must include many areas of economy. It should be energetically implemented and bear the political cost as reform will touch many vested benefits.

Synopsis:

Since the subprime crisis, major central banks have tried various means to be accommodative, from QE, QQE, negative rates to helicopter money in discussion. Is there a limit to monetary policy? To what extent can monetary policies address inadequacy of long-term demand? Will prolonged monetary easing fuel financial and property bubbles? What should be the role of monetary policy in the monetary policy, fiscal policy and structural reforms?



Discussion on the foregoing topics was held among the panelists.

Never depend on monetary policy excessively

ZHOU Xiaochuan said: never depend on monetary policy excessively, for monetary is not a cure-all, Excessive dependence will bring consequences. Each policy has the functions of its own and correct tools should be selected.

ZHOU Xiaochuan said that due to excessive public concern about the monetary policy, the market reaction to monetary policy is somewhat radical. In a sense, monetary policy causes an unexpected consequence.

ZHOU Xiaochuan said that after pursuing a QE monetary policy for years, China is already coming to the end of the current cycle. Global economic recovery goes on at different speeds in different countries. In another word, global market is not completely coordinated, and so is monetary policy.

Masai TAKAKO said monetary policies are effective themselves, but may become more effective in combination.

David Daokui LI said that financial crisis results from collective suppression. If we drink too much alcohol overnight, we will feel much depressed when waking up the following morning and we will have to drink coffee. Just like the coffee we drink in the morning, monetary policy can relieve our collective suppression.

Ian JOHNSTON said that the effect of monetary policy is being gradually



weakened. Monetary policy is a responsive policy. When economy has any problem, the central bank can take a responsive policy.

Ian JOHNSTON said that the government should bear responsibilities, and should not let the central bank bear all the responsibilities.

Sustainable development shall depend on structural reform

Shaukat AZIZ said that the developed countries apply monetary policies more than emerging market countries. However, dependence on monetary policies can only help you in the departure and will not help you get to the destination. Now, the influence monetary policies can bring about is already up to the limit. For sustainable development, it is also necessary to pay attention to other policies, such as fiscal policy, especially structural reform.

Masai TAKAKO said that it will take a long period of time for structural reform. In another word, it is impossible to see the changes today or tomorrow, but it may take 10 years to see the effect.

ZHOU Xiaochuan offered three points for long-term reform: (1) lay stress on consumer demand and family demand; (2) increase infrastructure investment; (3) transform from manufacturing to service.

ZHOU Xiaochuan said that with digitalization, the cash amount declines sharply. The public all uses electronic money or other digital money and money is all in the account. Thus, banks may charge negative rates. Under the circumstance of economic downturns, negative rate may become a better



choice and more useful than helicopter money.

Structural reform shall bear the political costs

Shaukat AZIZ said that structural reform must be comprehensive and include many areas of economy. It should also be energetically implemented and bear the political cost as introduction of reform will touch many vested benefits.

Shaukat AZIZ said that structural reform is painful. Political cost must be paid before implementing the structural reform. Reform will definitely encounter resistance. The government should be confident from top down and willing to pay the political cost in coping daily with the trade union and protests. Only in this way can the reform achieve a better result.

Shaukat AZIZ said that reform is relatively easier in the emerging markets than in the developed markets and early reform is better than late reform.

Shaukat AZIZ said that in institutional reform, the developing countries as well as the developed countries should pay attention to the following four points:(1) only by changing the public awareness can the structural reform be carried out; (2) the cost of reforming must be managed; (3) the reform agenda should not be spread out completely and simultaneously, because timing is very important.; (4) the effects of reform shall be estimated.

Ian JOHNSTON said that the purpose of economic modernization is to let the public have a better life. Economic policies should be formulated with consideration given to the short-term social cost as well as to how to cope with



such social cost, while demonstrating the long-term benefits to the public. It is the role of the government to improve people's life.