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China PBOC Renews Calls For Super-Sovereign Reserve Currency

BEIJING (MNI) - The Chinese central bank reiterated Friday its call for the creation of a "super-sovereign" currency to anchor the global monetary system arguing that there are "serious defects" with the current system.

Its arguments which were contained in its 2009 Financial Stability Report closely follow the recommendations contained in a paper by People's Bank of China Governor Zhou Xiaochuan published in March.

But the PBOC also said Friday that the International Monetary Fund should be allowed to manage some part of the foreign exchange reserve holdings of its members "in order to enhance its ability to maintain a stable international monetary and financial system."

That recommendation was not included in Zhou's original paper.

Like Zhou the PBOC did not directly name the dollar as the culprit for global monetary instability but said that the "inherent defects" in the current system need to be repaired.

"We need to create an international reserve currency that isn't connected with any sovereign country and can maintain long-term stability" the bank said.

It said that the IMF's Special Drawing Right should be allowed to play this role with the supervisory and management powers of the multilateral institution enhanced to carry this out.

The PBOC also said that the IMF should step up its supervision of the economic and financial policies of major reserve currency-issuing countries echoing long-standing recommendations by senior Chinese government leaders.

Quantitative easing policies pursued by "some countries" risk stoking medium- to long-term inflationary pressures the PBOC warned even as it noted that the uncertainties surrounding the health of the global economy are on the increase.

However domestic short-term deflationary pressure is also increasing because of industrial overcapacity in China the bank said.

It said that the dampening effects the global economic slowdown has had on Chinese exports is creating risks in the domestic banking system as companies fail but also noted that the on-going "adjustment" in the Chinese property is contributing to pressures on domestic lenders.

Zhou's paper on the need for super-sovereign currency has been dismissed in some quarters as a largely academic contribution to a global debate about the future of the world monetary system.

However the PBOC's inclusion of discussion of a replacement for

the U.S. dollar suggests a continuing high level of Chinese dissatisfaction with the instability caused by the post-Bretton Woods system.

Earlier this week Li Lianzhong a senior economist within the Chinese Communist Party said that China should abandon Treasury purchases in favor of gold or even U.S. land arguing that Washington is debasing the currency through its reflationary policies.

Estimates of the size of China`s dollar holdings exceed 80% of its existing \$1.95 trillion in foreign exchange reserves once third-party purchases are included with a sizeable chunk of that held in U.S. Treasury securities of various maturities.

Despite the public airing of concerns about the safety of its U.S. dollar holdings Chinese officials -- including State Administration of Foreign Exchange Director Hu Xiaolian whose agency manages the bulk of China`s forex reserves -- have defended their dollar purchases calling the Treasury markets among the safest and most liquid in the world.

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