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Sommario/riassunto	As China's economy becomes more market based and continues its rapid integration into the global economy, having an independent and effective monetary policy regime oriented to domestic objectives will become increasingly important. Employing modern principles of monetary policy in light of the current state of China's financial institutions, we motivate and present a package of proposals to guide the operation of a new monetary policy regime. Specifically, we recommend an explicit low long-run inflation objective, operational independence for the People's Bank of China (PBC) with formal strategic guidance from the government, and a minimal set of financial sector reforms (to make the Chinese banking system robust against interest rate fluctuations). We argue that anchoring monetary policy with an

explicit inflation objective would be the most reliable way for the PBC to tie down inflation expectations, and thereby enable monetary policy to make the best contribution to macroeconomic and financial stability, as well as economic growth. The management and monitoring of money (and credit) growth by the PBC would continue to play a useful role in the stabilization of inflation, but a money target would not constitute a good stand-alone nominal anchor.

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