Dual-track Interest Rates and the Conduct of Monetary Policy in China

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Summary – Questions

- Monetary policy in China:
  - dual-rack interest rate system
  - multiple targets
  - multiple instruments
- Questions:
  - Why multiple targets and instruments?
  - What's the impact of each instrument?
  - How do they coordinate?

Summary – Results

- Results (both theoretical and empirical):
    - market rates are most sensitive to changes in deposit interest rates
    - market rates respond significantly to changes in reserve ratios
    - market rates are not reactive to open market operations

Issues

- model-related issues:
  - excess reserves
  - financial intermediaries other than banks
  - imperfect competition
    - reality in China
    - Andres and Arce (2012, EJ): LR – stronger competition increases output; SR– responsiveness and persistency are different

Issues

- empirical issues:
  - daily data from the money and bond market, but what's the data frequency for news? (OLS)
    - quarterly data for real GDP?
    - only dates with releases are included?

Others

- impact of liberalisation
    - impact on investment (may be small since the lending rate does not change much according to the model)
    - impact on banks (could be big since the gap between deposit and lending rate shrinks)
    - implications on financial stability (banks and other financial intermediaries)

Others

- policy implications on the reform
  - elaborate the conclusion
  - policy experiments (comparison among different policies)
  - welfare implications

Summary

- answers very important realistic questions in China
- finds that market rate responds to different policy instrument differently
- empirical work supports the results in the model
- bank competition
- impact of liberalisation

Thank you!