

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

Discussant: Ji Zhang
PBC School of Finance
Tsinghua University

Summary { Questions

- Monetary policy in China:
 - dual-track 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?

- 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)

- 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!