

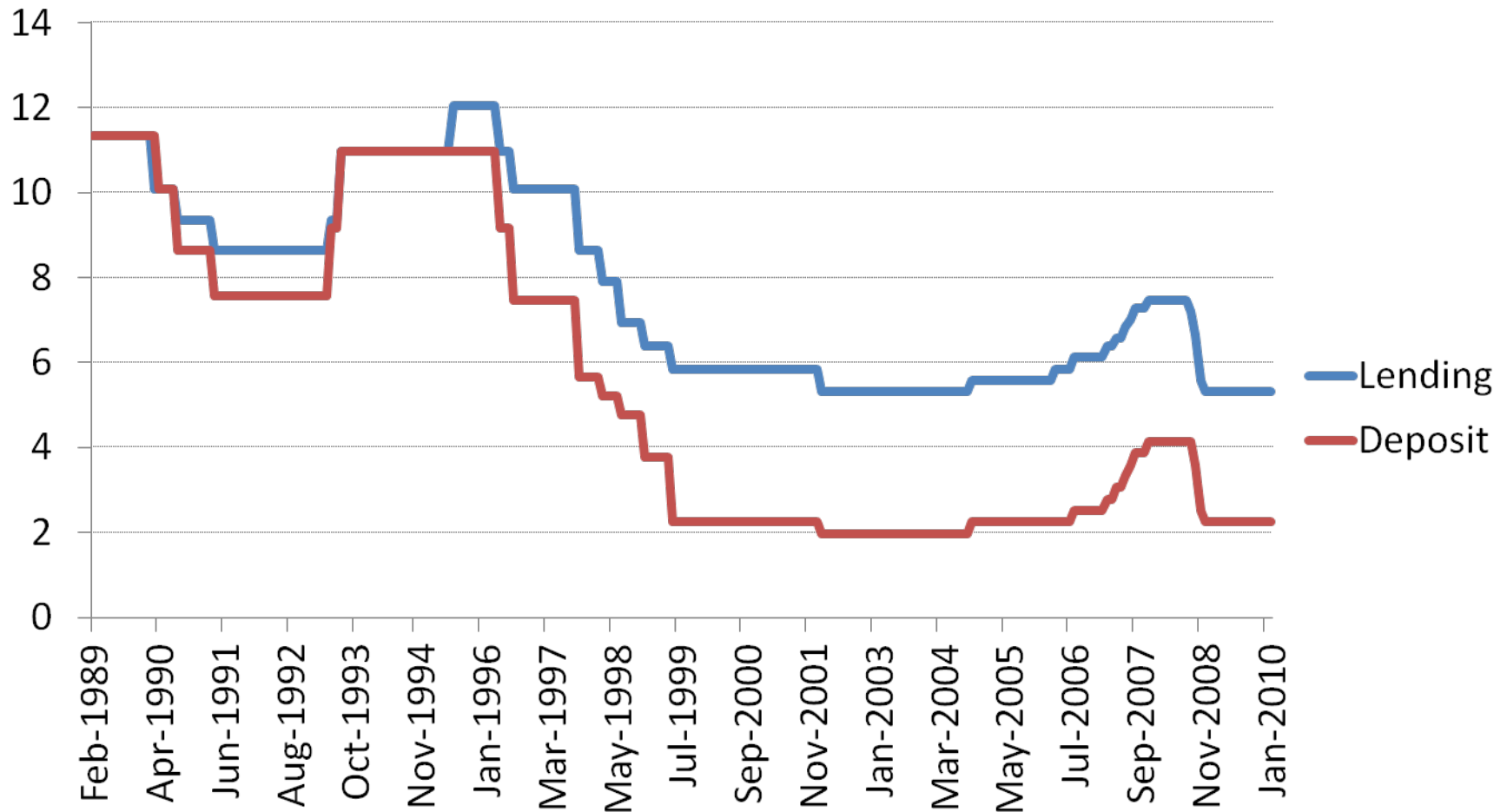
Monetary policy in China: the scope for change

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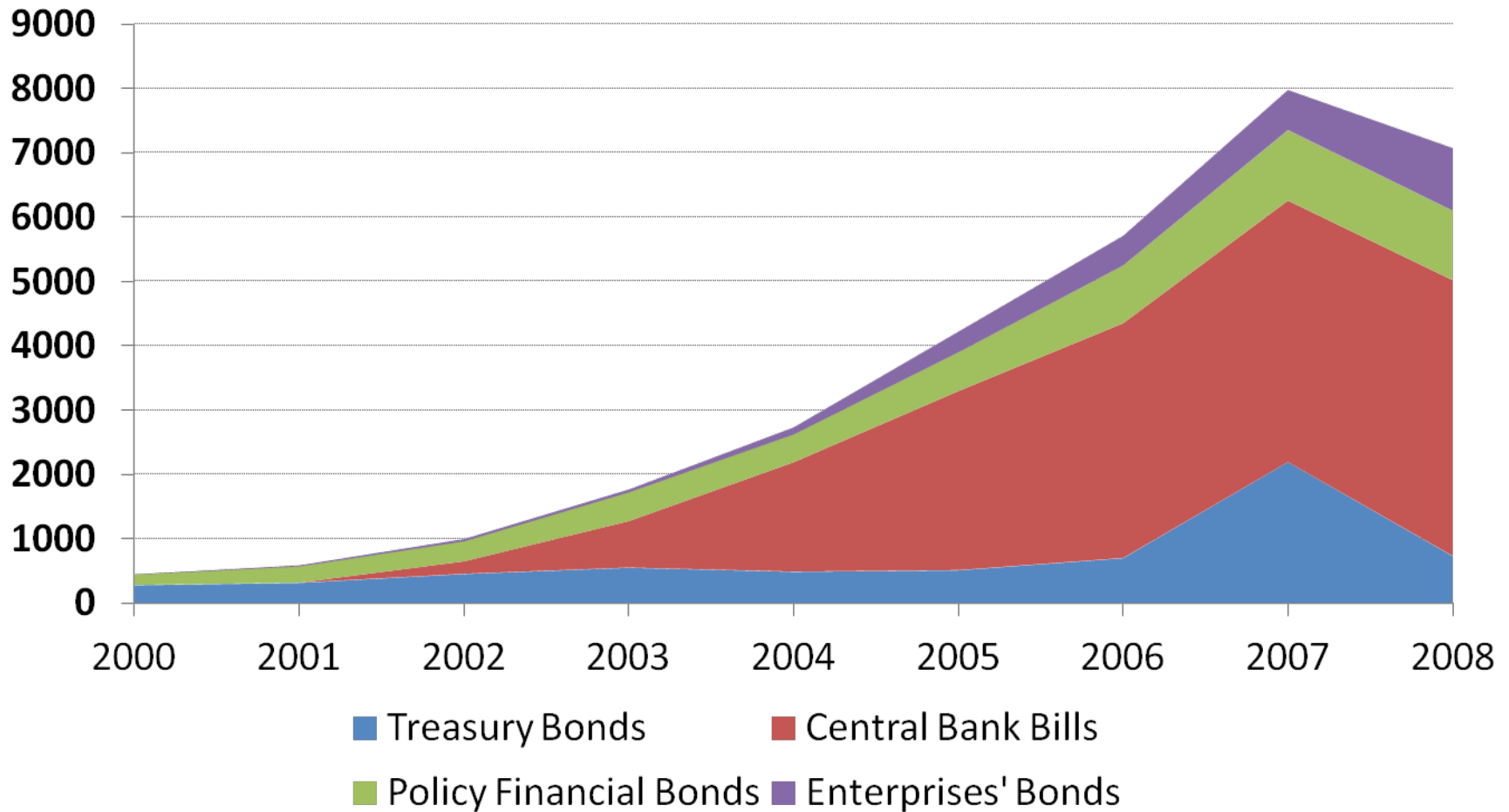
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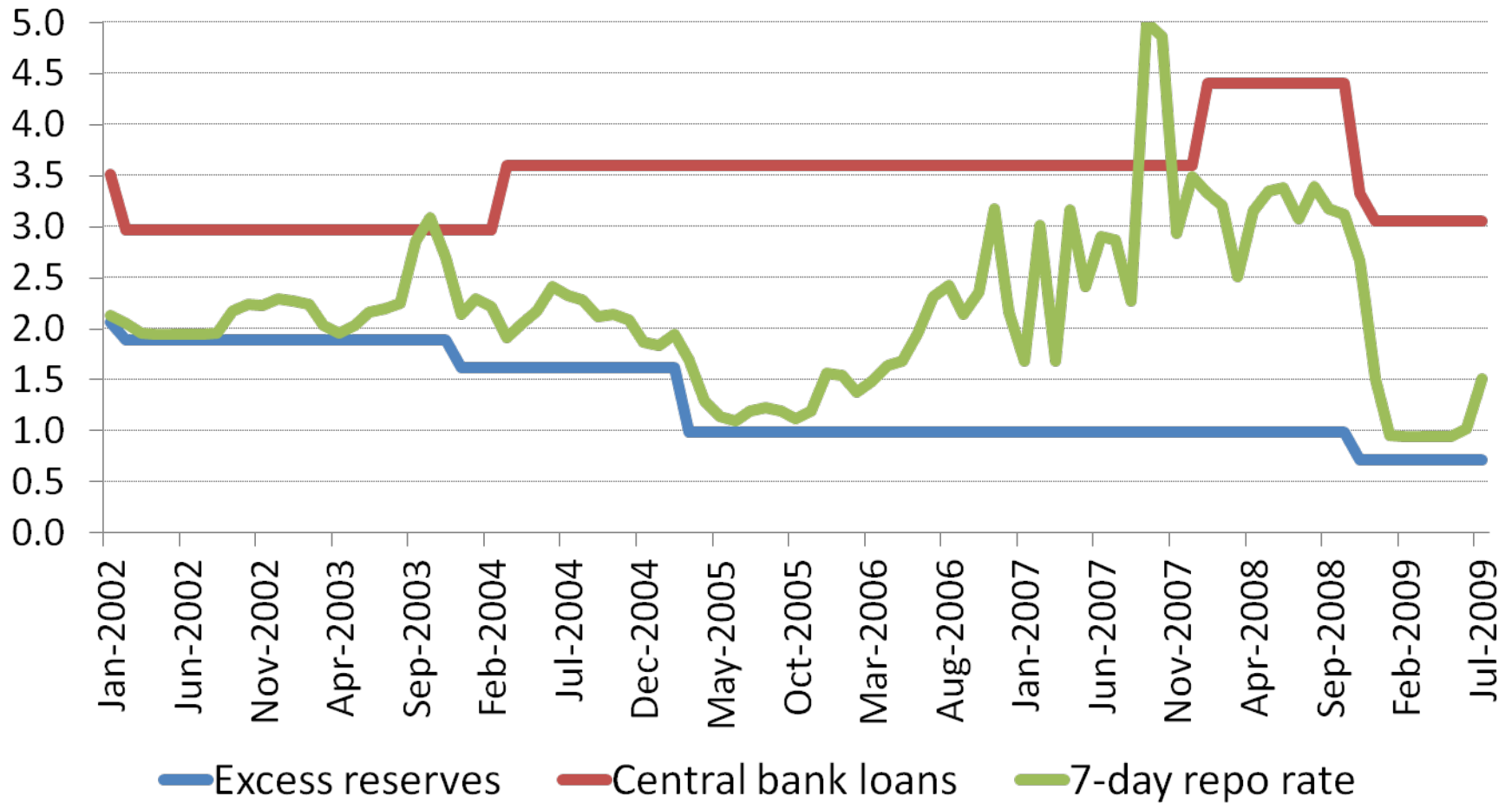
Regulated bank lending and deposit rates



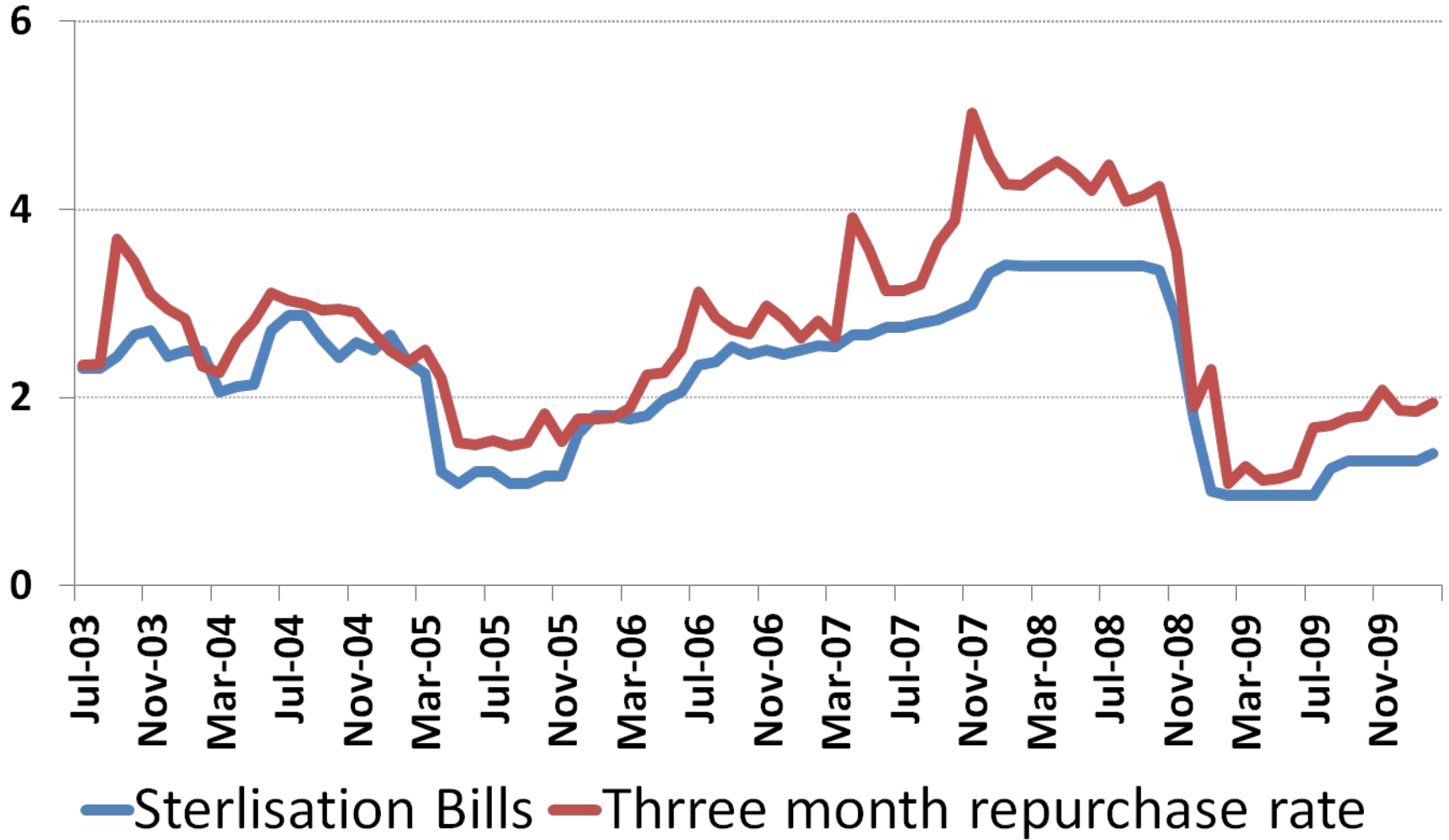
Financial flows have expanded markedly



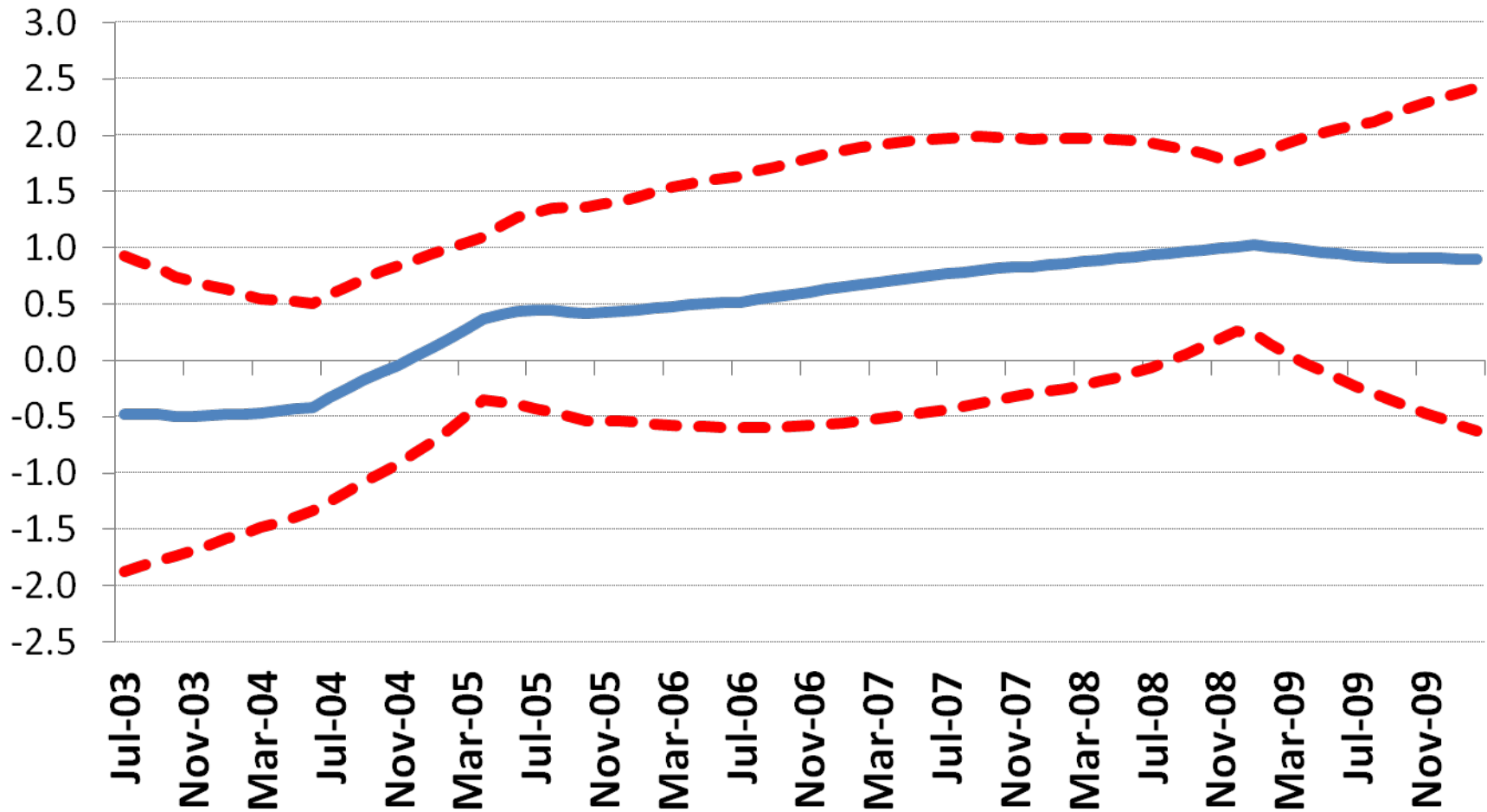
Large gap between the central bank own rates



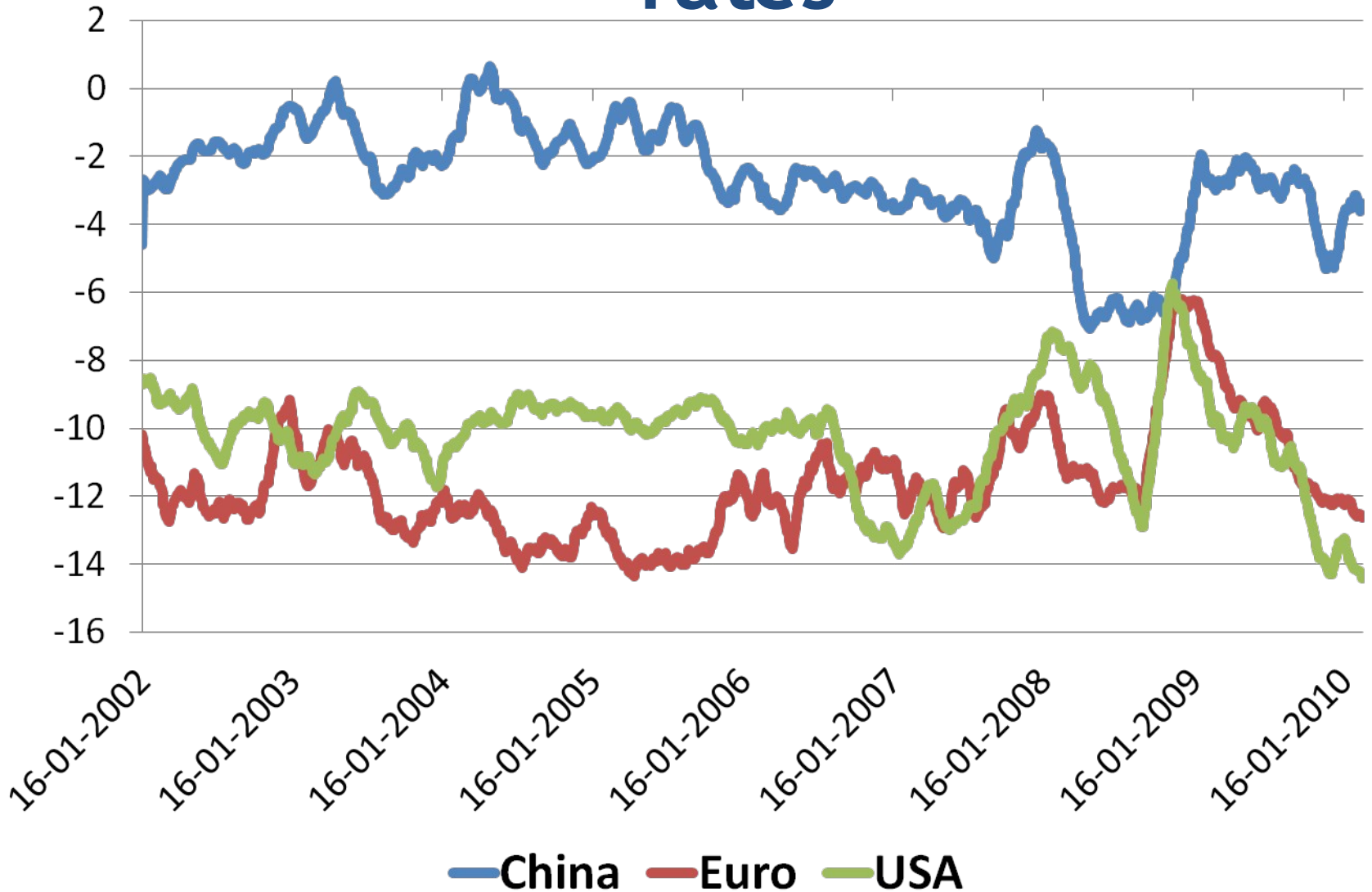
Rates on sterilization bills a key rate



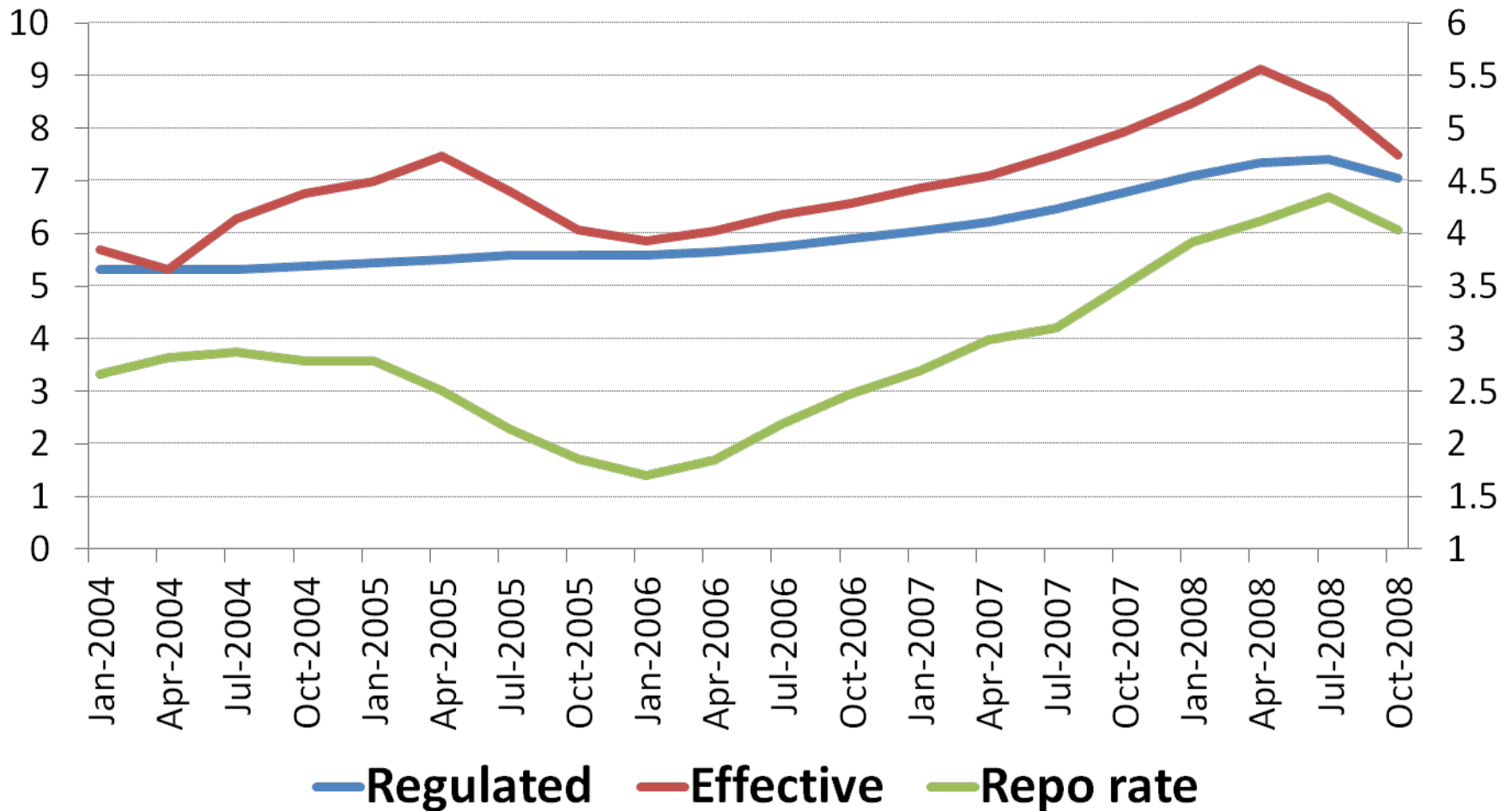
Impact of sterilisation bill rates on repo rates and 95% confidence intervals



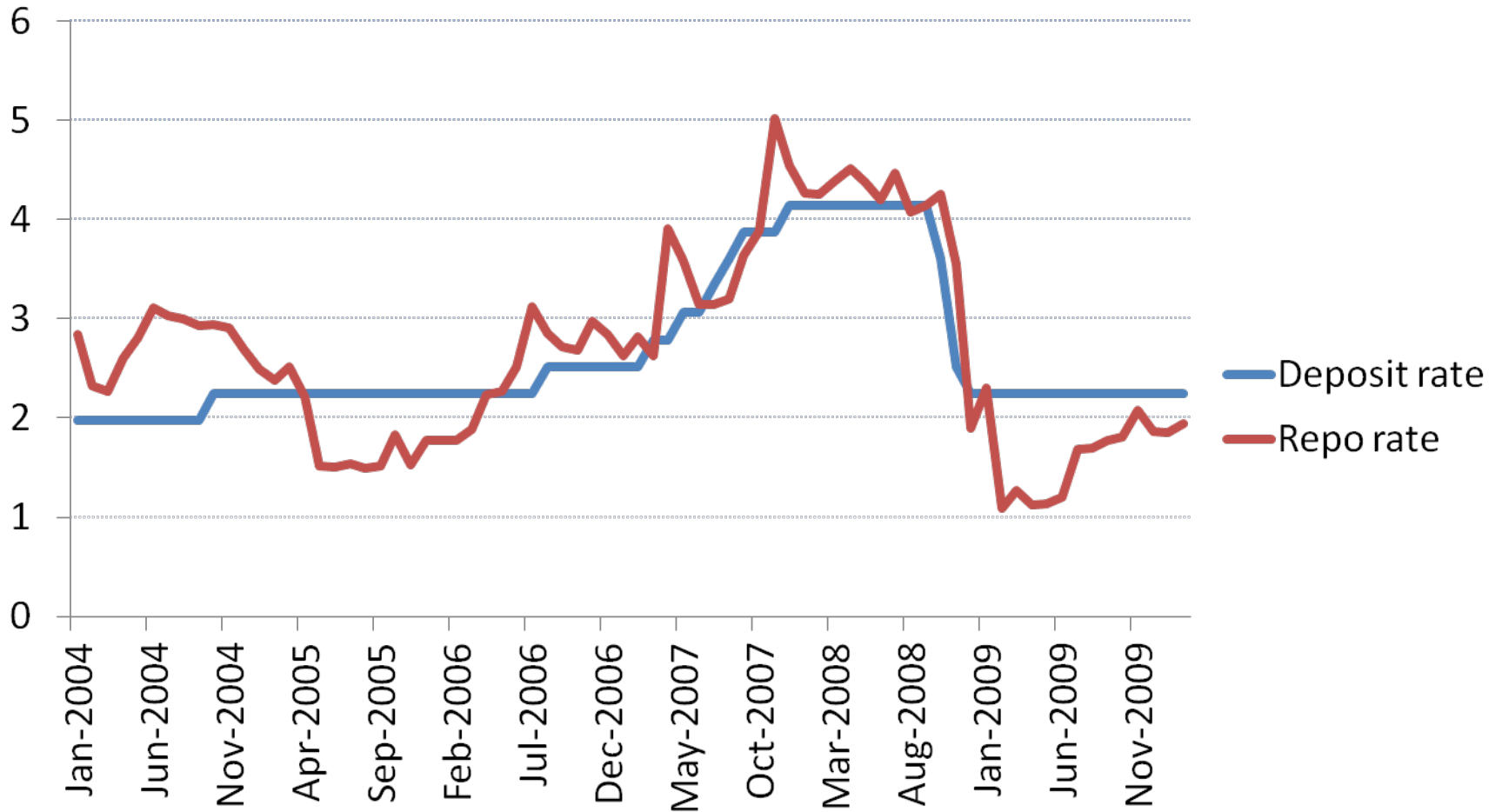
Volatility of three month interest rates



Bank lending rates after liberalisation



Regulated deposit rates and repo rates



Price determination

Annual change in inflation

explanatory variable :	Backward-looking inflation expectations	Hybrid inflation expectations
CPI inflation, 1st lag	1.369 ***	1.161 ***
CPI inflation, 2nd lag	-0.486 ***	
CPI inflation, 3rd lag		-0.346 ***
Expected inflation		0.213 ***
Output gap, 3rd lag	0.144 **	0.156 *
Change in the effective nominal exchange rate	0.127 ***	0.053 ***
Change in the effective nominal exchange rate, 5th lag	0.040 ***	0.036
Number of observations	78	65

An investment function for China

Explanatory variable:	Using the one year regulated bank lending rate	Using the effective one year bank lending rate	Using the Apparent firm interest rate
Investment over (lagged) capital 1st lag	0.202***	0.201***	0.199***
Investment over (lagged) capital 2nd lag	0.013	0.023**	0.015
Change in (logged) sales	0.079***	0.074***	0.077***
Change in (logged) sales 1st lag	0.033***	0.039***	0.037***
Change in (logged) sales 2nd lag	0.041***	0.042***	0.039***
Long-run sales elasticity	0.193	0.201	0.191
Change in (logged) user cost	-0.088	0.256***	-0.025**
Change in (logged) user cost 1st lag	-0.119	-0.148*	-0.041***
Change in (logged) user cost 2nd lag	-0.078	-0.312***	-0.015*
Long-run user cost elasticity	0.000	-0.263	-0.102
Cash flow over (lagged) capital	0.086***	0.089***	0.096***
Cash flow over (lagged) capital 1st lag	-0.067***	-0.067***	-0.073***
Cash flow over (lagged) capital 2nd lag	0.014***	0.009**	0.013***
Long-run cash flow elasticity	0.042	0.04	0.045
Number of observations	2905	2911	2490
R ²	0.26	0.26	0.26

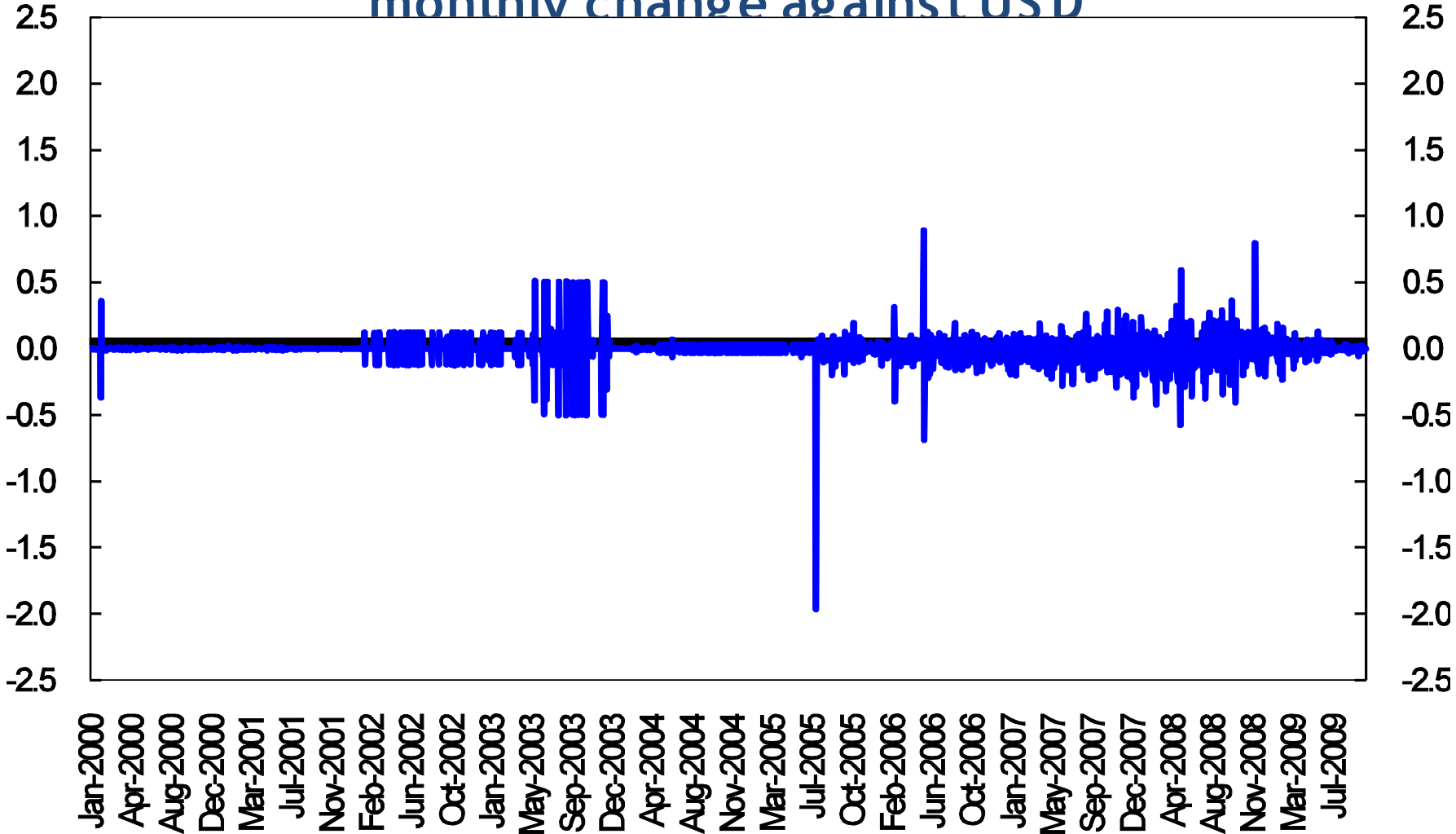
Note: *, ** and *** denote statistical significance at the 10, 5 and 1% level respectively

User cost elasticity by size of firm

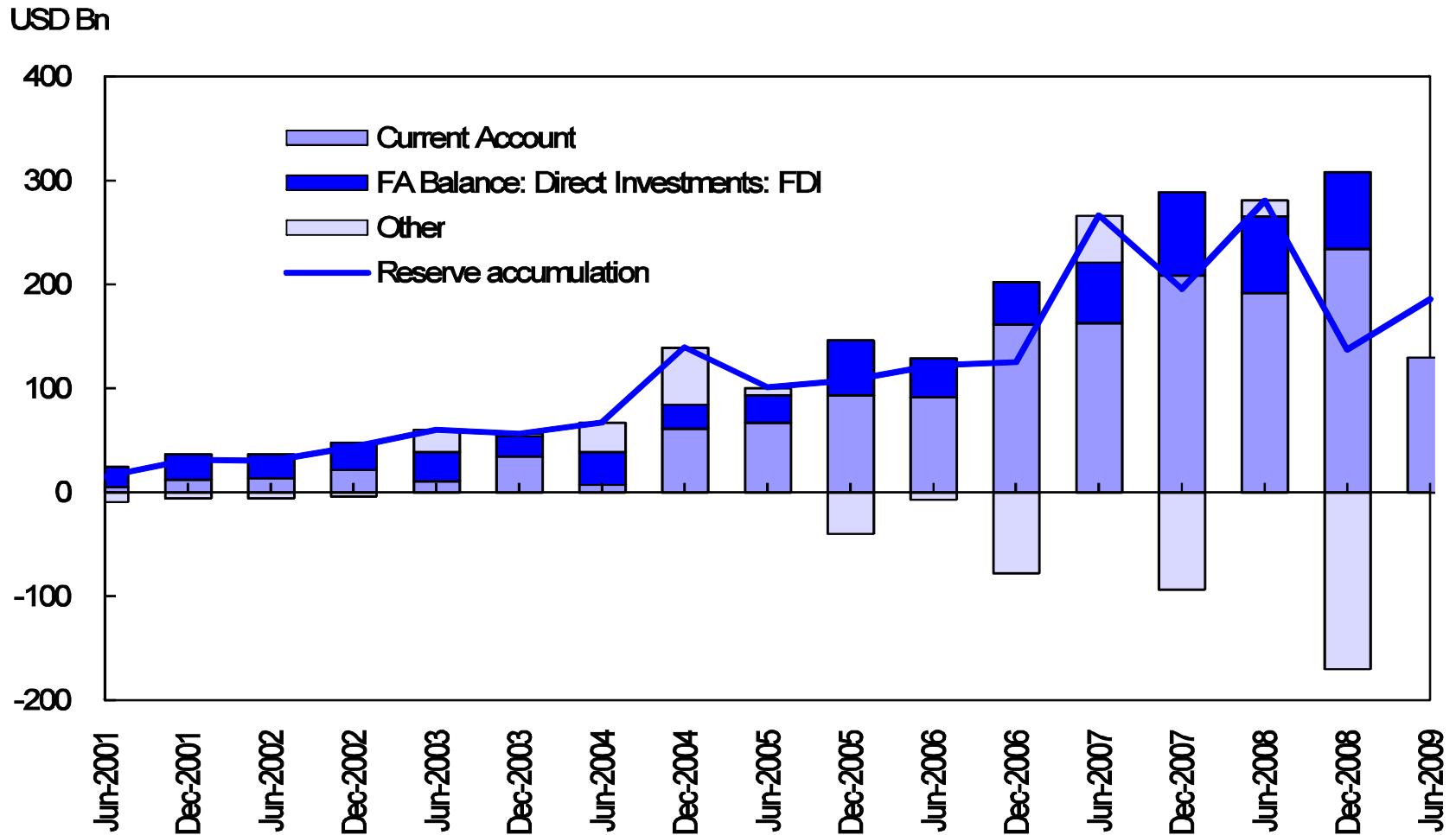
Small firms				
	Long run user cost elasticity		-0.136	
		change in (logged) user cost		-0.059***
		change in (logged) user cost 1st lag		-0.050***
		change in (logged) user cost 2nd lag		-0.017
Mid-size firms				
	Long run user cost elasticity		-0.129	
		change in (logged) user cost		-0.043***
		change in (logged) user cost 1st lag		-0.041***
		change in (logged) user cost 2nd lag		-0.020*
Large firms				
	Long run user cost elasticity		-0.044	
		change in (logged) user cost		-0.02
		change in (logged) user cost 1st lag		-0.035***
		change in (logged) user cost 2nd lag		-0.009

Exchange rate still pegged even when appreciating

monthly change against USD



The response to reserve accumulation



Thank you