Discussion on:
The Effects of Monetary Policy Surprises in China
Gunes Kamber and Madhusudan Mohanty

Yue Ma
City University of Hong Kong
http://www.cb.cityu.edu.hk/staff/yuema24/

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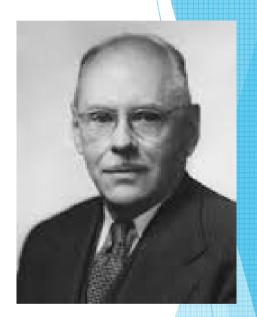
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Frank H Knight (1885 –1972)

"We perceive the world before we react to it, and we react not to what we perceive but always to what we infer …"

Main Objectives

▶ Estimate the effects of multiple monetary policy instruments in China (*lending rate, RRR, MP Report, ex/r regime*)

▶ Compute the response of the term structure of interest rates and economic variables to multiple monetary policy surprises: Both *ST rate* and *forward guidance* effects

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Transmission mechanism under financial market imperfections

▶ *Term premium ϕ (extra credit cost)*

$$i_t^m = E_t \frac{1}{m} \left\{ \sum_{j=0}^{m-1} i_{t+j} \right\} + \phi_t^m.$$

where i^m is govt bond yield

Transmission mechanism under financial market imperfections

▶ *Credit spread x (another extra credit cost)*

$$i_t^{mp} = i_t^m + x_t^m$$

where i^{mp} is corporate bond yield

Main Findings

▶ Using a state-of-the-art approach of VAR with high frequency identification (HFI), they find that multiple monetary policy surprises (LR, RRR, MPR) do have large and significant effects several years out into the term structure on both term premium & credit spread, and on economic variables like inflation and industrial output.

Main Findings

▶ But the effect of monetary policy report is relatively moderated

▶ Similar results for actual MP changes, which suggests that the monetary policy actions by PBoC are well understood and expected by the market

Comments/suggestions 1

▶ A rigorous, robust research framework based on a carefully thought identification strategy – a much needed approach for *policy research*

Comments/suggestions 2

► The term premium results are driven by assumption that forward guidance is the only MP shock?

Comments/suggestions 3

▶ The exchange rate regime changes as another MP shock?

Comments/suggestions 4

▶ Perhaps a more challenging task would be to test the hypotheses using micro-level data to explore asymmetric effects of monetary policy?

Summary

▶ An interesting paper with very important policy implications, esp. for Chinese central bankers who have been trying hard to move a market-based monetary policy regime

Summary

► I would extend the analysis further to explore the effects such as ex/r regime changes and using micro level dataset

► In general, I enjoyed reading the paper and learnt a lot from it!

谢谢
Thank you!