Transformation of the Chinese Consumption: The Impact of the Exchange Rate Reform on China’s Monetary Policy

Liang Sui-Dong¹, Lao Ye-Hui², Sang Jin-Yan³ and Ren Ding⁴

¹Institute of Finance, School of Economics, Jinan University, Guangzhou, 510632, PR China
²South China Normal University, Guangzhou, 510006, PR China
³School of Business, Shandong University of Technology, Zibo, 255012, PR China
⁴South China Business College, Guangdong University of Foreign Studies, Guangzhou, 510545, PR China

E-mail: ¹<commonst@126.com>, ²<laoyehui@yeah.net>

KEYWORDS Autonomy. Effectiveness. Chinese Consumption. VECM

ABSTRACT This paper focuses on comparing the autonomy and effectiveness of China’s monetary policy under two exchange rate regimes, which were respectively implemented during period 1996-2005 and 2005-2014. The autonomy of China’s monetary policy has been strengthened, and more effective to the aggregate output, since the new exchange rate regime was implemented, employing the method of Vector Error Correction Model (VECM). The reason is that the spending on real-estate has increased due to monetary policy, affects the cost of property in the interest rate channel since the new exchange rate regime occurred. Apparently, the irrational large ratio of real-estate to Gross Domestic Product (GDP) is a potential problem to the economy. The China government should guide citizens to be rational investors on real-estate.