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The Transmission Efficiency of Monetary Policy Interest Rate in the Reform of Interest Rate

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Abstract

Due to the particularity of our country, the transmission of monetary policy interest rates is divided into two transmission paths, market interest rates and regulated interest rates, which requires us to analyze the two paths, many scholars have a lot of research in this regard, and monetary policy is closely related to economic development. Therefore, in this article, By studying the transmission efficiency of monetary policy interest rates under the background of interest rate market reform, and the level of efficiency is of extremely important significance to the development of China's economy, and the role of interest rates in the market economy has been continuously strengthened.

Keywords

Monetary Policy; Interest Rate; Market Reform.

1. Research Background

With the advancement of China's interest rate marketization reform, interest rates continue to affect the investment and consumption of microeconomic entities, and will also affect the changes in macroeconomic aggregates, and gradually become the main transmission channel of monetary policy. The transmission efficiency of interest rates in monetary policy determines the strength of the control effect of monetary policy, determines the changes in monetary policy, and measures whether the marketization of interest rates has achieved sufficient results. Due to the particularity of our country, the transmission of monetary policy interest rates is divided into two transmission paths of market interest rates and regulated interest rates, which requires us to analyze the two paths, many scholars have a lot of research in this regard, and monetary policy is closely related to China's economic development. Therefore, in this article, I will study the transmission efficiency of China's monetary policy interest rate under the background of interest rate market reform, and the level of efficiency is of great significance to the development of China's economy, and the role of interest rates in the market economy is constantly strengthening.

This paper will focus on the analysis of the efficiency of interest rate transmission mechanism and the changes of various links of transmission, specifically analyze the development and specific impact of interest rate transmission, and analyze the efficiency of interest rate transmission in combination with relevant theories, and then put forward conclusions and suggestions.

2. Literature Review

Ishmael. E. & Darko. V. (2020) proposes that interest rates have no significant impact on credit demand, and that inflation has a significant negative impact on credit demand in the short term.

Jun yang Ma. (2019) Found that there is a certain quantitative relationship between the money supply and interest rate changes and exchange rate changes. The transmission of exchange rates to the ultimate goal of monetary policy is effective. Over time, the impact of exchange rate movements on price levels and GDP has become apparent.

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Jia Ming Zhu,Na Sun,Meng Zhu & Chun Li Wang. (2020) Explores the relationship between China's monetary policy and the stock market and conducts empirical research using the VAR model. Research shows that there is a long-term cointegration relationship between monetary policy and stock prices. Shen Guo,Zheng.

Jiang & Huimin Shi (2016), based on the new Keynesian sticky price model, demonstrates that the response of sector output share to monetary policy shocks can be used to assess the relative price stickiness between China's state and private sectors. This suggests that the practical effect of China's monetary policy at the aggregate level will weaken with a potential recession in the state-owned economy. Through the analysis of the current research status, many scholars have studied the principle of the interest rate transmission mechanism of monetary policy and refined its impact on a certain link, and have not systematically sorted out from macro to micro, static and dynamic; the regulatory interest rate and the market interest rate in the monetary policy interest rate have been studied and compared and relevant suggestions have been made, while the relationship between the interest rate market reform and the entire monetary policy interest rate has been less studied.

There is also a lack of relevant analysis on how to reflect the transmission efficiency of monetary policy interest rates and improve them. Therefore, this article can innovate and analyze from these perspectives. The next chapter specifically expounds the relevant theories and scholars' views and specific concepts, through the understanding of these concepts, we can better analyze the research topic of this paper, and then better understand the important role of interest rates in the economic market, and even monetary policy, so as to be more accurate in subsequent learning and analysis.

3. Related Definitions

3.1. Research Methods

Based on theoretical analysis and then empirical research, this paper analyzes the transmission efficiency of China's monetary policy interest rate, analyzes the interest rate transmission mechanism of China's monetary policy through specifically analyzing the relevant theories, uses relevant econometric models to conduct empirical tests, and finds and integrates relevant data in recent years for analysis and verification. The data can simply represent the changes in each link, quantify the changes, and is more conducive to observing and understanding the development of the transmission of interest rates, thus reflecting its transmission efficiency and facilitating our further research.

The literature research method obtains relevant data on the transmission efficiency of interest rates of monetary policy in China by looking up various literatures, so as to be able to comprehensively and accurately understand the efficiency changes of interest rate transmission mechanisms, so as to verify and obtain new views and opinions. This article has gone through a large number of literature to enrich its own content and opinions, and to find suitable models and data for analysis. Make new suggestions and observations by referring to their views.

3.2. Marketization of Interest Rates

3.2.1. Definition of Marketization of Interest Rates

Interest rate marketization means that the interest rate level of financial institutions depends on the supply and demand relationship of financial markets. In fact, market players can independently determine interest rates, while the state indirectly influences and determines the level of market interest rates through monetary policy tools, thereby achieving monetary policy objectives.

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3.2.2. The Development Status of China's Interest Rate Marketization

We have been pushing for reform of the interest rate market since the mid-1990s. By 2015, interest rates on deposits and loans had been relaxed. But the problem of the "two-track system of interest rates" remains. That is to say, there are two interest rate systems, namely regulated interest rates and market-based interest rates. Therefore, it is necessary to deepen the reform of the interest rate market in order to break down the barriers of interest rate transmission mechanisms and mechanisms. This requires efforts to give play to the role of the market and reduce the leading role of the government in the economic market.

3.3. Monetary Policy

3.3.1. Definition of Monetary Policy

Monetary policy is one of the main measures for the state to carry out macroeconomic regulation and control. Broadly speaking, monetary policy is all the measures taken by the government that affect the establishment of the financial system and promote the transmission efficiency of various mechanisms, thereby affecting changes in financial markets. It can have a direct or indirect impact on government tax revenues and fiscal expenditures. The narrow concept refers to the further influence of overall macroeconomic policies and final measures by adjusting the discount rate and reserve ratio in order to achieve our stated economic objectives. We usually use the concept of monetary policy in the narrow sense.

3.3.2. Transmission of Monetary Policy

The transmission process of monetary policy is: from the beginning of the use of monetary policy tools to achieve the final objectives of China's economic policy. The implementation process of monetary policy is as follows: the specific tools of monetary policy to the temporary goals in the implementation to the intermediate temporary goals and finally to the final goals. The objective in implementation is only a secondary variable used to regulate the intermediate objectives in policy until the central bank adopts monetary policy tools to achieve the final objective. The intermediate goal refers to the medium-term goal set by the central bank, which monitors the policy transmission and thus achieves the ultimate goal of monetary policy, which is closely related to the final goal and can be seen as a springboard for development. The central bank's intermediate targets mainly include adjustments and changes in the money supply and interest rates. The ultimate goal of monetary policy is the ultimate goal that central banks must achieve when formulating, implementing and using various means to adjust financial credit.

In today's economy and society, the ultimate goal of monetary policy is: stable prices, full employment, and ensuring the balanced development of the overall economy. The transmission process of monetary policy generally has three links: from the central bank to financial institutions and other non-financial institutions. The operation of the central bank's monetary policy tool first affects the reserves of banks and thus the cost of financing for society. From financial institutions such as commercial banks to industries such as enterprises. Financial institutions adjust their economic objectives according to existing economic policies, which in turn affects the economic activities of society as a whole. From non-financial institutions to social economic variables, such as total output, prices.

3.4. The Problem of Monetary Policy Transmission

There are often many problems in the transmission process of monetary policy, which is what we should pay attention to.

(1) The proportion of indirect financing is reduced, the cost of direct financing is reduced, and the development of banks' credit business in the entire financial market is not smooth.

(2) With the continuous reform and advancement of the capital market, the transmission efficiency of the price of capital and the effect of assets have become more and more important, and the price changes of assets have been widely present in the monitoring of monetary policy.

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(3) The transmission efficiency of interest rates in the transmission of monetary policy in China is special, which is divided into controlled interest rates and market interest rates, and controlled interest rates are not conducive to the improvement of interest rate transmission efficiency.

3.5. Interest Rate Transmission Mechanism of Monetary Policy

3.5.1. Theory of Interest Rate Transmission Mechanism of Monetary Policy

Monetary policy in the process of economic development, there are many ways of transmission, in the process of rapid economic development, the role of the transmission mechanism with interest rate as the core is getting higher and higher, this paper also mainly studies the transmission efficiency of interest rates. The transmission effect of interest rates has gradually become one of the main transmission channels of monetary policy. The basis for the rational operation of the interest rate mechanism is a complete financial information market. If the information of the financial market is not transparent and the development is not perfect, it will affect the liquidity of funds and further affect the interest rate system. Unreasonable interest rate transmission will hinder the reasonable flow of social funds. Micro-entities in economic activities are mainly manifested in the flexibility of interest rate changes, which refers to the sensitivity to monetary policy in consumption. Therefore, in the process of interest rate transmission, the reaction of micro subjects can fully reflect the transmission efficiency of policies.

3.5.2. Knut ▪ Wicksell's Theory of Cumulative Processes

Knut ▪ Wicksell has integrated financial analysis into economic analysis. KnutWicksell▪ introduced the concepts of natural interest rate and monetary interest rate. The natural interest rate is the standard interest rate it envisages. The monetary interest rate is the real market interest rate, which is the interest rate of bank loans. When the monetary interest rate falls below the natural interest rate, the company's profits increase, total production increases, and prices rise. This process of economic expansion continued until interest rates fell as a result of a decline in the supply of capital and a decline in the demand for capital. Because it varies so much, the currency interest rate rises to match the natural interest rate. Conversely, if the monetary interest rate is higher than the natural interest rate, the economy will shrink until the supply and demand of the market changes and the monetary interest rate will fall to the same level as the natural interest rate. Use the difference between the two interest rates to explain the fluctuations of the business cycle and the fluctuations of the price level. If the monetary interest rate matches the natural interest rate change, the currency is neutral. If the monetary interest rate does not match the natural interest rate, this result affects production and income.Knut ▪ Wicksell has integrated financial analysis into economic analysis. KnutWicksell▪ introduced the concepts of natural interest rate and monetary interest rate. The natural interest rate is the standard interest rate it envisages. The monetary interest rate is the real market interest rate, which is the interest rate of bank loans. When the monetary interest rate falls below the natural interest rate, the company's profits increase, total production increases, and prices rise. This process of economic expansion continued until interest rates fell as a result of a decline in the supply of capital and a decline in the demand for capital. Because it varies so much, the currency interest rate rises to match the natural interest rate. Conversely, if the monetary interest rate is higher than the natural interest rate, the economy will shrink until the supply and demand of the market changes and the monetary interest rate will fall to the same level as the natural interest rate. Use the difference between the two interest rates to explain the fluctuations of the business cycle and the fluctuations of the price level. If the monetary interest rate matches the natural interest rate change, the currency is neutral. If the monetary interest rate does not match the natural interest rate, this result affects production and income.

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The purpose of Knut ▪ Wicksell's research was to find ways to ensure the balance of money and maintain the neutrality of money, which banks make available to the public by controlling and following the synchronization of money with natural interest rates. His theory of the process of accumulation achieves interest rates to naturally adapt to monetary interest rates and achieves monetary equilibrium and economic stability, but still uses price fluctuations as the starting and ending points of monetary analysis. At the same time, his transmission mechanism aims to find ways to eliminate the difference between the two main interest rates. This is different from consciously using money or money. In the modern theory of monetary policy transmission mechanisms, the role of interest rates in promoting economic growth is still different.

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