

To Guide or not to Guide? Quantitative Monetary Policy Tools and Macroeconomic Dynamics in China

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Summary

This paper discusses the macroeconomic effects of China's informal banking regulatory tool "window guidance," introduced in 1998. Using an open-economy DSGE model that includes the commercial banking sector, we study the stabilizing effects of this non-standard quantitative monetary policy tool and the implications of quantity-based vs. price-based monetary policy instruments for welfare. The analyses are relevant to the current overhaul of Chinese monetary policy.