

Discussion of 'A Nascent International Financial Channel of China's Monetary Policy Transmission'

by Chang Ma, Alessandro Rebucci, and Sili Zhou

Shangshang Li

University of Liverpool

15th Workshop on Exchange Rates
Banka Slovenije, 2 December 2025

What is This Paper about?

Key Question: What is the impact of Chinese monetary policy (MP) on global financial markets?

What is This Paper about?

Key Question: What is the impact of Chinese monetary policy (MP) on global financial markets?

Key Finding: \uparrow **exposure to Chinese private portfolio outflows** \rightarrow \uparrow **sensitivity to Chinese MP**

- Country equity indices
 - ▶ EMEs affected by more
- US stock prices
 - ▶ Results driven by illiquid firms
 - ▶ Holds also for stocks less linked with Chinese economy

What is This Paper about?

Key Question: What is the impact of Chinese monetary policy (MP) on global financial markets?

Key Finding: \uparrow exposure to Chinese private portfolio outflows $\rightarrow \uparrow$ sensitivity to Chinese MP

- **Country equity indices**

- ▶ EMEs affected by more

- **US stock prices**

- ▶ Results driven by illiquid firms
- ▶ Holds also for stocks less linked with Chinese economy

What is This Paper about?

Key Question: What is the impact of Chinese monetary policy (MP) on global financial markets?

Key Finding: \uparrow exposure to Chinese private portfolio outflows $\rightarrow \uparrow$ sensitivity to Chinese MP

- Country equity indices
 - ▶ EMEs affected by more
- US stock prices
 - ▶ Results driven by illiquid firms
 - ▶ Holds also for stocks less linked with Chinese economy

Mechanism: household portfolio rebalancing

Discussion: Overall Evaluation

A very nice and polished paper!

- Findings supported by well-thought and executed empirical strategy
- Potentially useful for future research: Chinese MP shock series by high frequency identification

Discussion: Overall Evaluation

A very nice and polished paper!

- Findings supported by well-thought and executed empirical strategy
- **Potentially useful for future research:** Chinese MP shock series by high frequency identification

Discussion: Overall Evaluation

A very nice and polished paper!

- Findings supported by well-thought and executed empirical strategy
- Potentially useful for future research: Chinese MP shock series by high frequency identification

Focus of my discussion:

How does this paper change the way of thinking about the global impact of Chinese MP?

The Global Impact of MP: US vs China

As a benchmark, US MP transmits through

- Trade: expenditure-switching & US demand → Mundell-Fleming
- **Financial: global financial conditions and capital flows** → Global Financial Cycle (GFC)
 - ▶ e.g. [Rey \[2015\]](#), [Degasperi et al. \[2020\]](#), etc.

MP of ECB transmits through similar channels with milder impacts

- [Miranda-Agrippino and Nenova \[2022\]](#)

The Global Impact of MP: US vs China

As a benchmark, US MP transmits through

- Trade: expenditure-switching & US demand → Mundell-Fleming
- Financial: global financial conditions and capital flows → Global Financial Cycle (GFC)
 - ▶ e.g. [Rey \[2015\]](#), [Degasperi et al. \[2020\]](#), etc.

MP of ECB transmits through similar channels with milder impacts

- [Miranda-Agrippino and Nenova \[2022\]](#)

MP of China: [Miranda-Agrippino et al. \[2020\]](#)

- Trade: large spillovers
 - ▶ commodity prices and global value chain
- Financial: very limited effects on global capital flows, asset prices, financial conditions
 - ▶ indirect effect for commodity exporters

The Global Impact of MP: US vs China

As a benchmark, US MP transmits through

- Trade: expenditure-switching & US demand → Mundell-Fleming
- **Financial: global financial conditions and capital flows** → Global Financial Cycle (GFC)
 - ▶ e.g. [Rey \[2015\]](#), [Degasperi et al. \[2020\]](#), etc.

MP of ECB transmits through similar channels with milder impacts

- [Miranda-Agrippino and Nenova \[2022\]](#)

MP of China: [Miranda-Agrippino et al. \[2020\]](#)

- Trade: large spillovers
 - ▶ commodity prices and global value chain
- **Financial: very limited effects** on global capital flows, asset prices, financial conditions
 - ▶ indirect effect for commodity exporters

What's New in This Paper

This paper's contribution: transmission of Chinese MP **via capital flows and asset prices**

- in cross-sectional and more micro level
→ complements the existing understanding

What's New in This Paper

This paper's contribution: transmission of Chinese MP via capital flows and asset prices

- in cross-sectional and more micro level
 - complements the existing understanding
- However, effects still **economically small** ('*nascent* transmission channel')
 - **maybe still sufficient to focus on the trade channel for now policy-wise**
 - ▶ Caveat: under-reporting of private and official lending [[Horn et al., 2021](#)]

Beyond This Paper

This financial channel may become more important if

- China reduces capital control
 - ▶ Capital abundant \rightarrow \uparrow capital outflows \rightarrow \uparrow exposure to Chinese capital
 - ▶ Tradeoff between allocative efficiency, productivity, and stability
[Liu et al. \[2021\]](#), [Ma et al. \[2019\]](#)

Beyond This Paper

This financial channel may become more important if

- China reduces capital control
 - ▶ Capital abundant \rightarrow \uparrow capital outflows \rightarrow \uparrow exposure to Chinese capital
 - ▶ Tradeoff between allocative efficiency, productivity, and stability
[Liu et al. \[2021\]](#), [Ma et al. \[2019\]](#)
- **RMB becomes a dominant currency**
 - ▶ Central for the financial transmission of US MP shocks
[Aoki et al. \[2020\]](#), [Georgiadis et al. \[2023\]](#), [Cesa-Bianchi et al. \[2024\]](#)
 - ▶ Chinese currency as potential regional or global currency
[Gopinath and Stein \[2018\]](#), [Ilzetzki et al. \[2019\]](#), [Chahrour and Valchev \[2022\]](#), [Mukhin \[2022\]](#)

Beyond This Paper

This financial channel may become more important if

- China reduces capital control
 - ▶ Capital abundant \rightarrow \uparrow capital outflows \rightarrow \uparrow exposure to Chinese capital
 - ▶ Tradeoff between allocative efficiency, productivity, and stability
[Liu et al. \[2021\]](#), [Ma et al. \[2019\]](#)
- RMB becomes a dominant currency
 - ▶ Central for the financial transmission of US MP shocks
[Aoki et al. \[2020\]](#), [Georgiadis et al. \[2023\]](#), [Cesa-Bianchi et al. \[2024\]](#)
 - ▶ Chinese currency as potential regional or global currency
[Gopinath and Stein \[2018\]](#), [Ilzetzki et al. \[2019\]](#), [Chahrour and Valchev \[2022\]](#), [Mukhin \[2022\]](#)
- **However, the mechanism may change**
 - ▶ Institutional investors overtake retail investors in a more developed financial market?