

PhD Defence: Camille Macaire

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Pôle Tertiaire - Site La Rotonde - 26 avenue Léon Blum - 63000 Clermont-Ferrand

Room Pascal - 313

Liberalization of the Financial System in China: Impact on Foreign Exchange and Monetary Policy

JURY

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SUMMARY

We investigate in this thesis the impact of the **gradual liberalization process of the Chinese financial system** on the foreign exchange market and the conduct of monetary policy in China. We focus on two measures aiming at liberalizing two-way cross-border financial flows, namely the launch of the Shanghai Free Trade Zone in 2013 and the creation of the Shanghai-Hong Kong Stock Connect in 2014, and one new channel for inflows with the opening up of the Chinese Interbank Bond Market to a broad range of foreign investors in 2016. We also include the reform of the currency regime in 2015. The novelty of our general approach lies in the granularity of data used, as well as in the introduction of financial indicators accounting for the rapid enlargement of financial markets in China and their subsequent increasing role in the financial environment in the country. We show that the new two-way flows channels did not reduce the fragmentation between onshore and offshore renminbi markets. On the contrary, they have led to increased stress in the foreign exchange market. Results also suggest that only the Shanghai-Hong Kong Stock Connect and the opening of the interbank bond markets have had a significant impact on China's integration in the global financial system. Finally, we find that the Chinese central bank became more restrictive in the adjustment of money base after the introduction of the Shanghai-Hong Kong Stock

Connect. Since Chinese authorities underlined that internal economic objectives would stay the key priority, these results suggest that the reform process will remain gradual and prudent.

KEYWORDS :

China; Renminbi Onshore and Offshore Markets; Foreign Exchange; International Financial Markets; Covered Interest Parity; Monetary Policy; McCallum rule

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