

# Applicability of Negative Interest Rate Policy under China's New Normal

## —Based on the Comparison of European Negative Interest Rate Policy

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### Abstract

The Chinese economy has entered a new normal, superimposing the impact of the trade war. The financial support of Chinese commercial banks for small and medium-sized enterprises is still insufficient, leading to the problem of financing difficulties for small and medium-sized enterprises and the poor transmission of monetary policy. In order to study how to promote Chinese commercial banks to follow the monetary policy orientation, increase financial support for small and medium-sized enterprises, and promote the transformation of economic development, this paper uses a comparative analysis method, through the comparative analysis of the economic environment of China and the EU. The author believes that the negative nominal interest rate policy of the euro zone countries can be of reference to China and can have a positive economic impact.

### Keywords

New Normal, Nominal Negative Interest Rate, Actual Negative Interest Rate, Comparison between China and Europe

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## 1. Research Background and Literature Review

### 1.1. Research Background

From the perspective of the world, since the 2008 financial crisis, interest rates in major economies around the world have gradually declined. In August 2011, through surveys of 25 emerging countries, 16 countries had different levels of negative interest rates, accounting for 64% [1] while euro-zone countries performed more prominently, stimulating the economy, low interest rates and even Negative interest rates have become their unanimous choice. Denmark, Sweden,

Switzerland, the European Central Bank even pushed the nominal interest rate into a negative value, and imposed a “penalty interest rate” on the deposit reserve of commercial banks in the central bank. In 2015, China entered the era of negative interest rates as the People’s Bank of China continued to cut its benchmark interest rate. At the end of January 2016, the Bank of Japan began to implement a negative interest rate policy. At the beginning of February 2016, Federal Reserve Chairman Yellen said that the United States may use a negative interest rate policy. In 2017, the European Central Bank is still reluctant to raise interest rates.

Since the financial crisis, with the continuous fermentation of the financial crisis, China’s economic environment has undergone tremendous changes. Mainly reflected in: First, The country adjusted GDP growth rate to 6.5%; second, with the economy. The economy is getting worse and the population is aging. The domestic demand is weak. In 2017, China’s CPI rose by 1.6% over the previous year, and the growth rate dropped by 0.4 percentage points from the previous year. In the case of uncertain economic recovery, the possible future deflation risks cannot be ruled out. Third, nowadays, Chinese real estate has a divergent market in large, medium and small cities. Supply-side reform is imperative, and the removal of overcapacity has become a stage that China must experience. However, the growth rate of investment in emerging industries is less than the rate of de-capacity, which has also become a major cause of China’s economic development. Fourth Although China’s PPI rose by 6.3% year-on-year in 2017, experts predict that the year-on-year increase in PPI in 2018 will enter the downside range, and the annual average may be around 3.6%. Fifth, government debt is as high as 13 trillion, and the state has also introduced a series of measures to restrict local government’s new debt. The scale of local investment will be bound. Sixth, with the decline of China’s labor costs and The United States intends to impose a \$200 billion tariff on China, China’s export situation is worrying,. In general, the domestic economy is still in the stage of three phases of superposition.

In summary, at a time when the economy is in trouble, signs that the major economies have pursued or begun to study the applicability of negative interest rate policies indicate that under the current global low-interest economic environment, if the prospects for a world economic recovery remain unclear, worldwide Low interest rates will be a long-term trend, and there may be more countries that implement negative interest rate policies to lower interest rates below zero to stimulate the economy.

In order to give full play to the role of China’s monetary policy in the economy, it is necessary for China to learn from international experience and innovate monetary policy operating tools to better play the effects of monetary policy.

## **1.2. Literature Review**

For the rationality, feasibility, and economic effects of the negative interest rate

policy, scholars at home and abroad have conducted discussions.

### 1.2.1. Related Research by Foreign Scholars

1) Discussion on the possibility of existence of negative interest rates. Marx pointed out that interest is the income that money capitalists obtain by virtue of their right to use monetary funds through the right to use funds [2]. In this sense, interest rates should not be negative. Keynes pointed out that if the interest rate is low enough, it will face a liquidity trap. At this time, the increase in money supply cannot lower the interest rate, and the interest rate has entered the liquidity trap when it has not reached zero [3], so it is unreasonable to have a negative interest rate. But Cutetti pointed out that during the Great Depression in the United States, because of the bond not only paying interest but also giving buyers the option to purchase new securities in the future, this option has certain value, which leads to bonds. The emergence of negative interest rates [4]. It can be seen that economists have already given certain attention to the issue of negative interest rates.

2) Can negative interest rates promote economic growth? Frye used seven Asian countries as samples, and analyzed by econometric model: negative interest rate is not conducive to economic growth. For every 1% increase in real interest rate, economic growth rate increases by 0.5% [5]; Hank and Wiranawa pass Studies in 23 developing countries also pointed out that abandoning negative interest rates can not only increase the number of investments, but also improve the quality of investment [6]; but Newcom and Perry put forward the opposite and believe that the negative interest rates of developing countries will be early. It appears in the rising cycle of the economy, and the negative interest rate of developed countries appears later than the economic decline cycle [7]; Uribe and Yue also pointed out that there is a significant negative correlation between output and real interest rate [8].

### 1.2.2. Domestic Scholars Related Research

1) Domestic scholars' discussion on the mechanism of negative interest rate policy. Domestic scholars have studied how the negative interest rate policy affects the economy. Wang Bing believes that there is a linkage mechanism between interest rates and inflation. Negative interest rates may cause inflation to rise and thus increase the negative rate, forming a vicious circle [9]. Zhang Zhen, Yang Chong, Fan Xudong believe that for individual interest savers, for individual savers, because low-income people's deposits lack interest rate flexibility, they are the victims of negative interest rates. For banks, negative interest rates lead to low loan costs, which reduces their risk-constrained awareness; for enterprises and governments, negative interest rates can lead to a lack of cost-constrained mechanisms, resulting in an imbalance in resource allocation; in the context of a large government and small economy, Negative interest rates reduce the government's financing costs, leading to the government's massive investment in debt construction [10]; Qiao Haijun and Chen Zhiqiang believe

that negative interest rates will lead to lower interest rate constraints on real estate investment, resulting in rising property prices and then forming asset price bubbles [11].

2) Discussion on the advantages and disadvantages of domestic scholars on the implementation of negative interest rate policy. In the period of rapid economic development in China, China's monetary authorities have also made the inflation rate higher than the savings deposit interest rate for a long period of time, thus forming an actual negative interest rate. For such a negative interest rate policy, Chinese scholars have given their own views. Zhang Alloy, Yang Chong, Fan Xudong believe that low- and middle-income groups are the victims of negative interest rates. Negative interest rates will reduce the bank's risk-constrained awareness, resulting in inefficient corporate resource allocation. At the same time, negative interest rates lead to the prevalence of private lending, which is not conducive to the government's regulation of currency flows [10]; Yang Zhenxue believes that negative interest rates are likely to increase the gap between the rich and the poor has been explained microscopically and proved by the model [12]; Qiao Haijun and Chen Zhiqiang believe that negative interest rates are a cyclical phenomenon, often appearing in the economic up cycle. Since the real estate industry is a business cycle-sensitive industry, negative interest rates will lead to lower interest rate constraints on real estate investment, leading to an increase in property prices and the formation of asset price bubbles [11]; Wu Cong believes that negative interest rates are not conducive to China's long-term development. Through regression model and dummy variable model, the impact of the interest rate change on China's economy from 1953 to 2010 is analyzed. The conclusion that interest rate and economic growth are proportional to each other indicates that long-term negative interest rate is unfavorable to China's economic development [13]. Du Xiangqian mentioned in his doctoral thesis that low interest rate and negative interest rate are the products of interest rate regulation. The fundamental way to solve it is interest rate marketization reform. There is a certain contradiction between regulation under low interest rate and marketization of interest rate [14].

Only a few scholars have pointed out through their own analysis that the policy of negative interest rate still has certain beneficial effects on China, or that it does not conflict with the development of China's economy. Wang Yang's research on the negative interest rate imposed by Hong Kong found that negative interest rates can help maintain the stability of the Hong Kong dollar exchange rate under certain circumstances, and have a certain effect on the linked exchange rate system and the stability of the Hong Kong economy. [15] Chen Zhirong pointed out that the negative interest rate policy is the central bank. The product after weighing the pros and cons is the inevitable outcome of China's rapid economic growth and the appreciation of the renminbi. It and the appreciation of the renminbi can make the domestic factor and commodity prices adjust in the same direction [16]; Shen Kunrong first summarizes the research of

scholars in the past He then divided interest rates and economic growth into two phases, and pointed out through regression analysis that between 1990 and 1999, interest rates and economic growth were inversely related, and negative interest rates actually played a role in promoting economic growth [17].

However, in general, most scholars have negative opinions on the continued implementation of the negative interest rate policy during the period of rapid economic growth in China.

However, most of the views on the negative interest rate policy were born in the period of rapid economic development in China. However, today's Chinese economy has changed from high-speed growth to medium-high speed, and CPI is not up to expectations. Although the PPI has increased in 2016, many parties expect to have a PPI of 17 years. Still under pressure, the economic situation is quite different from the past. In the case of such a huge change in the economic environment, whether the negative interest rate policy can be reused is worth discussing. It is also worth noting that after the financial crisis, countries in the Eurozone also began to implement negative interest rate policies, but the negative interest rate policy implemented by Sweden, Denmark, Switzerland, and the European Central Bank is a nominal negative interest rate, and they are nominally negative. The object of implementation is the deposit of commercial banks in the central bank, which is different from the actual negative interest rate policy that China has implemented in the past. Whether China can learn from the negative interest rate policy of the euro zone countries to stabilize China's economic development is another issue worthy of discussion.

## **2. The Meaning of Negative Interest Rate Policy and the Effect of Monetary Policy**

Since the financial crisis, policymakers in various countries have found it difficult to use traditional monetary policies to help their economies get out of the crisis, and economists have begun to experiment with ways that are different from traditional economic policies to help their national stimulus. The economy, such a policy is called unconventional monetary policy. The so-called unconventional monetary policy has two main categories, one is the innovative monetary policy tool, which is not available in the past; the other is the unconventional operation of traditional monetary policy [18]. Among them, the negative interest rate policy is a typical representative. The so-called negative interest rate is divided into two levels. The first level is that the nominal interest rate is negative; the second level is that the real interest rate is negative, that is, the difference between the nominal interest rate and the inflation rate is negative. The so-called negative interest rate policy refers to a policy operation in which the government monetary authority consciously operates its own policy to make the real interest rate or nominal interest rate of the country negative, and thereby stimulate economic growth.

As mentioned earlier, the negative interest rate policy can be divided into two

types. For the actual negative interest rate policy, the main purpose of the government's implementation of this policy is to directly lower the cost of investment and financing in the society, thereby stimulating investment and thus driving economic growth. This also reflects that the government is more concerned about the amount of economic growth rather than the quality of economic growth. The object it targets is mainly the broad investment body of the society.

However, the author has compiled according to relevant data. Through human intervention, the interest rate of deposits is lower than the inflation rate during the same period, resulting in a negative real interest rate. As a result, the cost of commercial banks' storage and storage can be reduced, and the lending rate can be reduced accordingly. Since investment is a function of the reduction in interest rates. The reduction of interest rates will inevitably increase the investment demand of interest-sensitive entities. The multiplier effect will double the GDP, and the rapid growth of the economy will further push up the inflation rate, resulting in a further decline in real interest rates, thus forming a channel for interest rate down. The interest rate sensitive entities mentioned here mainly include enterprises, governments, individual consumers, and overseas investors. For enterprises, the reduction of interest rates reduces the financing costs of enterprises, which makes the investment projects with lower marginal efficiency of capital become more profitable and expands the scope of investment, which will promote economic development through multiplier effect; For the government, the government is also a major body of social investment and financing. The reduction in interest rates directly leads to a reduction in the cost of borrowing, which will stimulate a large increase in government infrastructure investment, which in turn will lead to an increase in the economy. For individual consumers, the reduction in interest rates can alleviate the financial pressure on buying houses and increase the demand for home purchases. To promote housing prices and promote the development of the real estate industry, and to promote the development of the upstream and downstream industries; for overseas investors, economic development will greatly increase new investment opportunities, and lower interest rates will reduce their investment costs. Foreign capital inflows will also promote large economic growth.

As for the nominal negative interest rate policy, compared with the actual negative interest rate policy, the ultimate goal of the government is to promote macroeconomic growth. However, the primary object of the policy is the excess reserve of commercial financial institutions. By imposing a negative interest rate on the excess reserves of commercial banks, it is equivalent to imposing a penalty interest on them, increasing the opportunity cost of holding monetary funds by commercial financial institutions. Thus, commercial financial institutions are allowed to release their stocks of reserves, increase the mobility of society, indirectly lead to a decline in social interest rates, increase the availability of loans, and thus promote economic growth. In addition, the policy can also increase the

attractiveness of the local currency market by increasing the international hot money, thus reducing the attractiveness of the local currency, lowering the domestic exchange rate and promoting exports to stimulate economic growth.

### **3. Implementation of Negative Interest Rate Policy in Eurozone Countries and Comparison between China and Europe**

#### **3.1. Historical Implementation and Evaluation of China's Negative Interest Rate Policy**

In the process of economic development, China's monetary authorities have also used negative interest rate policy instruments, which can be roughly described as: a phenomenon in which the inflation rate exceeds the household savings rate and the real interest rate is negative. Statistics show that in the 240 months from September 1990 to August 2010, China has a negative interest rate for 80 months, with an average duration of 20 months [19]. However, due to changes in the economic environment and changes in the perception of economic development, the impact of the actual negative interest rate policy on the economy has also changed.

In the 1990s, China just started to reform the market economy. Although, after the reform and opening up, China gradually got rid of the shortage economy. However, the level of economic development is still not high, the volume is small, and the poverty rate is high. The unemployment of a large number of workers caused by the reform of state-owned enterprises has made the employment problem a major problem for the Chinese government. In such an economic environment, the development of the economy, mainly focusing on increasing the volume of the economy rather than the quality, has become the goal of the Chinese government. Under such policy guidance, we can see that from 1990 to 2002, the deposit interest rate showed a downward trend, and the inflation rate did not decrease. The combined effect of the two led to the emergence of real negative interest rates during this period.

However, during this period, the negative interest rate policy played a certain positive role. During this period, the level of interest rates and the level of economic growth showed a reverse relationship. The study by economist Shen Kunrong also pointed out that this opposite relationship exists. The author believes that as China's economy has gradually overdrawn from the seller's market to the buyer's market, most traditional industrial products are oversupply, and investment yields have fallen. While the actual negative interest rate policy has lowered investment costs, it has indeed boosted investment and boosted China's economic growth. The government has achieved its goal to a certain extent. Therefore, at this stage, the positive role of the policy is dominant.

However, since 2002, with the rapid growth of China's economy and rapid increase in volume, economists have come to realize that economic development should also focus on quality, not just on quantity, and that only GDP is a change

from the point of view. Under such circumstances, the government still follows the act of lowering real interest rates to drive investment to drive the economy, which leads to a criticism of the actual negative interest rate policy far greater than the support voice.

The reason why the majority of scholars criticize and continue to implement such a negative interest rate policy is mainly based on the economic background of China at that time. The real estate market has opened a new era of China's economic development. In this "real estate economy", China's economic development has the following characteristics: 1) According to statistics, GDP growth rate has been growing at a high rate from 2002 to 2010, ranking first in the world; 2) The CPI index is in an upward channel from 2002 to 2010. The economy has no deflationary pressure at all, but there are concerns about inflation in some years. 3) Since 2002, with the real estate industry driving, industrial added value and real estate added value are in a rapid growth trend, and housing prices are Overturned a few times, the entire industry is overheated; 4) PPI index from 2002 to 2010, most of the years are positive, indicating that the economy is active, both supply and demand. 5) In the case of GDP performance appraisal, since 2002, local governments have raised large amounts of financing through local financing platforms, and their scale is difficult to estimate. These funds are generally used by local governments for infrastructure construction and local investment to drive GDP. 6) China's import and export in the decade from 2002 to 12, can be said to be rapid growth, a large number of foreign capital inflows, recurring projects and capital projects double surplus, the renminbi has been in a space of appreciation. 7) Residents have few investment channels, the capital market is not perfect, and deposits and private lending are still the choice of most people.

The author believes that under such an economic overheated economy, the economic structure tends to be unbalanced, and the accumulation of local government debt, the negative interest rate policy will continue to be implemented, and will encounter the following resistance: 1). Negative interest rate will cause the cost of capital to constrain the decision-making of enterprises. Insufficient force makes funds flow to some low-investment investment areas, resulting in low investment efficiency; 2) The shrinkage of ordinary residents' wealth is not conducive to expanding consumption; 3) It may cause overcapacity and hinder industrial structural upgrade; 4) The rise in real estate and other asset prices, causing asset bubbles; 5) The gap between the rich and the poor increases. Low- and middle-income earners are big customers of bank deposits; 6) Promoting private financial development is not conducive to government regulation and financial risks.

### **3.2. The Implementation Process and Effectiveness of Negative Interest Rate Policy in Euro Area Countries**

First, in order to reduce the attractiveness of the local currency and lower the



exchange rate, Denmark and Switzerland in the euro zone countries, as two open small economies, maintain a reasonable exchange rate in their own currency, which is the sole purpose of their implementation. Specifically, Denmark is the second country in the Eurozone to implement a nominal negative interest rate. The reason and purpose of the country's nominal negative interest rate policy is mainly that after the financial crisis, due to the independence of Danish domestic monetary policy and stable economic environment, it has become a major place for international safe-haven funds. The influx of international hot money has led to a significant appreciation of the Danish Krone. However, Denmark is an export-oriented economy. His economy is mainly driven by exports and tourism. The appreciation of the local currency has caused a great impact on its economic growth. The main reasons and objectives of the implementation of this policy in Switzerland are similar. The main reason is that after the financial crisis broke out, the Swiss financial market has a very high security and a large influx of capital has caused the Swiss franc exchange rate to rise. However, Switzerland is A small but highly outward-looking economy, the devaluation of the franc is bound to have a huge impact on its own economy.

Second, in order to reduce promote commercial banks to lend and stimulate the economy, Sweden is the first country in the Eurozone to implement a negative interest rate policy. There are two main reasons for its implementation of the nominal negative interest rate policy. First, after the financial crisis, Sweden's domestic economic recession, GDP growth rate declined rapidly, and domestic deflation was obvious. Second, the central bank injected capital into commercial banks because of commercial banks. The outlook is not willing to lend money, so that the liquidity of the investment will return to the central bank. Similarly, the European Central Bank has this factor in mind when implementing this policy. After the financial crisis, the euro zone's credit expansion was slow, the real economy loan contracted, and the annual growth rate of private enterprise loans was even negative. Moreover, as the population ages more and more, the resources consumed are gradually increasing, reducing the input of productive resources in the economy [20], and the pressure on debt repayment of heavy debtor countries is intensifying. These have increased the concerns of commercial banks about the economic outlook, which led them to return the liquidity given by the central bank back to the central bank.

Third, consideration of fulfilling the duties of the central bank. For the Swiss National Bank, the inflow of large amounts of capital led to a significant drop in the yields of Swiss domestic bonds, which led to a decline in the yield of bond assets held by the Swiss National Bank. In 2011, the Swiss National Bank was able to pay an investment income of 11.5 billion yuan to the Ministry of Finance, but by 2013, it had no dividends to hand in. Therefore, it is expected that through the implementation of this policy, the international hot money will be driven away, and the bond yield will return to positive numbers to ease the pressure on the central bank. The European Central Bank also bears the respon-

sibility of maintaining a 2% inflation rate. However, since the financial crisis, the euro zone has even faced the risk of deflation in the face of economic downturn. Therefore, the European Central Bank is expected to use this policy to stimulate the economy and boost inflation to fulfill its duties.

Due to the implementation of the negative interest rate policy, Eurozone countries achieve the following economic goals:

First, stabilizing the exchange rate and lowering the exchange rate from the experiment of the negative interest rate policy, the two countries benefiting the most are Denmark and Switzerland. Both countries have adopted a stable exchange rate as a single goal. Through the nominal negative interest rate policy, both countries have successfully prevented the influx of international hot money, greatly reducing the exchange rate of the local currency and achieving the expected results. The largest bank in Scandinavia also pointed out that this extreme measure can indeed help the central bank to defend the exchange rate system. But similarly, while the policy has had a positive impact on both countries, it has also led to distortions in the value orientation of financial markets, rising operating costs of financial institutions and the negative impact of cost shifts.

Second, promoting economic recovery The Swedish Central Bank's communique pointed out that the previous series of loose monetary policies (including negative interest rate policies) have a positive effect on consolidating economic recovery and reducing unemployment rate, and the inflation rate has also rebounded, but the economy The recovery is still quite fragile and requires further expanded monetary policy to stimulate the economy. Similarly, for the European Central Bank, since the introduction of the negative interest rate policy, it has also imposed other measures to stimulate economic recovery, not simply relying on negative interest rate policy to stimulate. Moreover, in practice, if we want to increase the bank's cash cost by pushing the negative interest rate policy to promote lending, we must first increase the willingness of the economic entity to borrow. Otherwise, it is difficult to achieve the preset effect. Therefore, it remains to be seen whether the negative interest rate policy can truly achieve the expected effect of stimulating the economy.

### **3.3. Comparison of Differences between China and the EU's Negative Interest Rate Policy**

China's previous negative interest rate policy and the negative interest rate policy implemented by the euro zone countries are vastly different.

#### **3.3.1. The Reasons for the Formation of Negative Interest Rates Are Different**

What China used to stimulate economic growth is the so-called "actual negative interest rate policy", which makes the inflation rate exceed the nominal savings rate and forms the actual negative interest rate; however, the euro zone countries are different, and they implement the nominal negative interest rate policy,

which is direct Formed by dropping the nominal interest rate below zero.

### **3.3.2. The Role of the Policy Is Different**

China's negative interest rate policy is implemented by depositors, which is equivalent to paying taxes on depositors' deposits in commercial banks. The implementation of the negative interest rate policy of the euro zone countries is the major financial institutions, which are a kind of "penalty interest" for the excess preparations of these financial institutions deposited in the central bank.

### **3.3.3. Different Mechanisms of Action**

China's negative interest rate policy implements real negative interest rates on residents' savings. On the one hand, it wants to stimulate residents' consumption demand. On the other hand, by reducing the cost of absorbing savings from commercial banks, it is expected to reduce the cost of lending, increase the demand for loans, and stimulate investment. The nominal negative interest rate policy of the euro zone countries, on the one hand, wants to reduce the attractiveness of the country to international capital through this policy, and prevent the appreciation of the local currency; on the other hand, it wants to increase the lending cost of commercial banks to promote their lending, to stimulate the economy.

### **3.3.4. The Economic Environment in Which the Policy Is Implemented Is Different**

Since the 21st century, the actual negative interest rate policy implemented by the Chinese government has been linked to the fast-growing economy, relying on inflation brought about by economic development to achieve its goal. The implementation of such a policy is like a kind of "fueling on the fast-growing economy"; however, the nominal negative interest rate policy of the euro-zone countries is implemented when the economy is in trouble, and the purpose is to promote economic recovery. The role of the economy can be described as "sending charcoal in the snow."

## **4. New Requirements for Monetary Policy**

In the new era, it is the top priority of our government's work to unswervingly push forward reforms. However, if we hope that the reform can continue to advance, a stable macroeconomic environment is a necessary prerequisite. In today's new economic background, China's economy still has high uncertainty, and there are still certain risks in macroeconomic operations. Therefore, at this time, it is very important to introduce new policies to stabilize the macro economy and stimulate the stability of the macro economy.

To this end, the author believes that in the new era, there should be the following new requirements for monetary policy tools: First, continue to enrich and improve the various tools to maintain and ensure that liquidity is reasonable and sufficient. In recent years, the requirements for the central bank's liquidity management and control capabilities have become more stringent. Liquidity

management not only suffers from disturbances such as changes in capital flows, changes in fiscal expenditures, changes in capital market new shares and changes in the distribution channels of basic currencies, but also the establishment of sound price-based regulatory mechanisms, guidance on market interest rates and directional fine-tuning, etc. Multifaceted tasks [21]. In the case of a reduction in the base currency through the foreign exchange channel, it is important to use monetary policy tools to provide financial support for the economy.

Second, adhere to the stability of the total amount, and pay attention to the pre-adjustment and fine-tuning according to changes in the economic situation, provide a reasonable monetary and financial environment for economic restructuring and upgrading, and promote economic health and sustainable development [22]. It is required to appropriately change the pace and pace of regulation according to changes in the economic situation, so as to be reasonable and appropriate, and appropriately adjust when there are major changes in basic conditions, and strive to prevent the economic inertia from falling, in order to maintain macroeconomic stability, and at the same time oppose excessive “water release”. And causing structural distortions to increase debt and leverage levels to guard against possible economic risks.

Third, revitalize the stock, optimize the increment, increase the loanable funds, and strive to reduce the cost of social financing. Since last year, China’s central bank has continuously adopted the method of cutting interest rates and lowering the RRR to promote liquidity and stimulate economic development. The adjustment of stocks prevents the central bank from continuously releasing liquidity, but commercial financial institutions have placed excessive funds in the banking system due to concerns about the risks of economic downturn, resulting in excessive preparation.

## **5. The Implementation Space and Expected Effect of the Negative Interest Rate Policy under the New Normal of China’s Economy**

### **5.1. Operational Space of Negative Interest Rate Policy**

The author believes that in the current economic environment, the implementation of the negative interest rate policy, the negative impact of the previously considered negative interest rate policy will be greatly reduced. First, the investment channels of residents have increased, especially the current development of Internet finance, and the innovation of financial instruments has led to residents not taking bank deposit interest as their main property income. Therefore, the impact of negative interest rates on the shrinking of the wealth of the residents and the increase in the gap between the rich and the poor will be alleviated. Moreover, in the case of financial disintermediation and increased competition, banks want to pass on the cost of their penalty interest to depositors, which will face greater pressure. Second, the development of China’s real estate has changed greatly, large, medium and small cities. The differentiation of the real

estate market has become a reality. Although housing prices in large cities have increased, housing prices in small and medium-sized cities still have downward pressure. Therefore, the negative interest rate policy leading to the overall real estate price bubble and thus the economic risk can be greatly reduced; once again, the national government is now actively pursuing excess capacity, most of the social funds also consciously avoid the overcapacity industry, and The banking industry is gradually over-marketing. As a profit-making organization, its own risk management requirements will not allow large amounts of funds to enter overcapacity industries. Therefore, before the previous negative interest rate policy, the reduction of cost constraints will continue to lead to overcapacity, which can be greatly avoided. Finally, in the past, low interest rates have become a good time for local governments to borrow, which has a certain effect on increasing local government debt risk. But now, in the case of the state's efforts to control local government debt and strict and standardized supervision and management of local debt, such concerns can be reduced.

From the above analysis, we can see that previous scholars believe that the continued implementation of negative interest rate policies may bring harm to the economy. Under the current economic environment, these hazards may be greatly alleviated or cease to exist. In other words, the negative interest rate policy may have its rationality to continue in the current economic environment.

## **5.2. The Necessity and Expected Effect of Adopting the Nominal Negative Interest Rate Policy in the Euro Area Countries**

What we can see is that what we have implemented in China is a so-called negative real interest rate policy. To implement this type of negative interest rate policy, it generally requires a higher inflation rate, that is, to drive the economy through inflation policy, and Supplemented by negative interest rates to further stimulate investment in order to stimulate economic growth. But for China's current economy, high inflation has become an impossible in the short term.

Although China's current CPI index continues to fall short of expectations, but with the reduction of the benchmark interest rate, China once again entered the era of real negative interest rates. However, this era of negative interest rates is different from the era of negative interest rates that China has experienced in the past. The difference is mainly due to the different economic cycles in which the two are located. Under such a new economic normal, the monetary authorities adopt an actual negative interest rate policy, which is undoubtedly to increase the cost of holding money for residents, promote consumption, and also reduce corporate financing costs and promote corporate investment. However, the author believes that when monetary authorities choose the means of operation of monetary policy, they cannot always hope to exert pressure on the majority of residents to contribute to economic growth. Moreover, the reduction in financing costs also means that SMEs can get the funds they need. In addition,

we can see that commercial banks have obtained great benefits in the development of China's economy. Moreover, it is also an important part of the national economy. Therefore, the author believes that the selection of monetary policy tools should sometimes exert greater pressure on economic growth by exerting pressure on financial institutions such as commercial banks.

Through the above analysis, the author believes that the negative nominal interest rate policy is an option for China. By imposing a penalty interest on the excess preparation of commercial banks, commercial banks are encouraged to revitalize their own stock funds to support economic development and transform the traditional thinking of economic stimulus.

If the nominal negative interest rate policy is implemented, the author believes that the following positive economic effects can be produced.

First, stabilize the capital market and promote the sound development of the capital market. By imposing a penalty on the bank's excess reserves and increasing the cost of holding excess reserves by commercial banks, this can encourage banks to reduce excess reserves. There are two sources of liquidity for these releases, one is the real economy and the other is the financial market.. At present, the sluggish stock market has directly stranded the registration system that was originally launched, delaying the process of IPO listing and listing, and reducing the vitality of the stock market. Not only the stock market, but also the bond market needs the injection of funds to stimulate the vitality of the market. Otherwise, the new policy will be put on hold and the capital market operation mechanism will not be improved, which will directly affect the realization of the reform objectives. Bank stocks entering the capital market will inevitably form a bottoming role for the capital market and other sub-markets represented by the stock market, and may also drive a new round of market rallies. This is of great help to stabilize China's capital market and provide favorable support for capital market reform. Moreover, bank capital enters the capital market. From the perspective of risk management, it will inevitably entrust professional institutions to operate or accept other services provided by professional institutions.. This has a great effect on expanding the proportion of professional investment institutions in the capital market, improving the investor structure, and promoting the rational development of capital.

Second, provide financial support for the real economy. The problem of financing difficult financing in the real economy is the problem of the Chinese economy. Although the government is constantly asking for support for SME financing, under the uncertain economic recovery, the uncertainty of the economic situation will increase the risk of lending. If the actual economy does not improve, it will be difficult to ensure that the banking industry will still listen to the national policy and continue to increase the lending to the real economy. In this case, it is necessary to use the negative interest rate policy to put pressure on the banking industry. The implementation of nominal negative interest rates can increase the opportunity cost of holding funds, and encourage them to actively

seek investment opportunities in order to cooperate with the implementation of government expansion policies in specific circumstances. Moreover, the liquidity released by bank over-preparation cannot be completely congested in the capital market. The need for risk control of banks will definitely separate this part of the funds, so the real economy will be another place for commercial banks to revitalize the stock funds. It also has great help in supporting the development of the real economy, thereby stimulating corporate investment and promoting employment.

Third, promote the expansion of the wealth effect of the capital market and help residents increase their income. Labor income is the largest proportion of Chinese residents' income, and since the money-making effect in the stock market has always been low for ordinary people, the benefits of residents from the capital market are not high. Therefore, in order to increase the income of residents, on the one hand, increase the income of residents and increase the amount of disposable property; on the other hand, develop multi-level capital markets, enrich financial products, increase the wealth effect of the market, attract the participation of the residents, and increase the residents. The sense of financial management has great significance. With the positive impact of the liquidity released by the banks involved in the capital market, the improvement of the capital market will effectively increase the income of residents and enrich the channels of income, which will also play an important role in stimulating residents to increase consumption and stimulate domestic demand.

Fourth, regulate exchange rates and stabilize imports and exports. Net exports have long been one of the three carriages of the Chinese economy. Although its contribution to China's growth has declined since the 2008 financial crisis, it still occupies an important position, especially for the survival and employment of SMEs. Although China is constantly optimizing the structure of its export products and has achieved certain results, the optimization of the structure is a long-term thing. At present, stabilizing China's exports and stimulating the economy is another major task. Only when the overall macroeconomic growth is stable will it be possible to provide economic support for further reforms. In the case of rising labor costs, lowering the exchange rate to promote exports is a good choice. Since the reform of the RMB intermediate price formation mechanism, the renminbi has shown a depreciation trend, but export data shows that since December 16th, China's import and export situation is still not satisfactory. Since the exchange rate depreciation has a J-curve effect on the promotion of exports, the author believes that in the future, preventing the rebound of the RMB exchange rate and maintaining the stability of the existing exchange rate will have a positive effect on increasing exports in the future. By imposing a penalty interest on the excessive preparation of commercial banks, reducing China's attractiveness to foreign capital, it is important to stimulate the depreciation of the RMB exchange rate.

## 6. Some Suggestions on the Implementation of the Nominal Negative Interest Rate Policy under the New Normal of China's Economy

In order to put forward practical and feasible suggestions for China to implement the nominal negative interest rate policy under the new economic normal, the author believes that it is necessary to analyze the resistance that may be foreseen in the implementation of the nominal negative interest rate policy and the countermeasures that the vested interests may take.

Since the fame and fortune interest rate is mainly imposed on the excess reserves of financial institutions, the biggest source of resistance in the implementation of this policy is commercial banks. The implementation of the policy will inevitably squeeze the bank's spread and increase its operating costs. To this end, commercial banks have two outlets, the first is the transfer of costs. On the one hand, it can reduce the interest on savings, but this will lead to a reduction in savings, which will directly lead to a reduction in the amount of money that can be loaned. It is not feasible for China's current commercial banks, which are mainly deposit and loan businesses. On the other hand, it can increase the interest on the loan. This aspect is what the government does not want to see. On the other hand, the reduction of loans caused by such measures will increase the excess reserves held by commercial banks and indirectly increase the cost of holding them. It can be seen that the transfer of costs by commercial banks is not easy to implement. The second way out is that the banking industry is working hard to revitalize its own stock funds and increase lending. This is the original intention of the monetary authorities to implement this policy. However, this path may actually face restrictions on investment direction and objects.

Therefore, the author believes that the government authorities want to effectively promote the implementation of this policy, and the main thing to do is to unswervingly promote negative interest rates and not be hindered by interest groups. More importantly, the government should adopt other policies to coordinate the economy and increase the security of bank lending. Therefore, the author believes that the government can work from the following points:

First, adhere to the authority and independence of the monetary authorities of the central bank for monetary policy decisions. The implementation of the negative nominal interest rate policy imposes a penalty interest on the excess preparation of commercial banks, which directly affects the self-interest of commercial banks and inevitably leads to struggles between interest groups. Therefore, in this case, it is important to make the formulation of central bank decisions authoritative and independent to eliminate possible interference;

Second, strengthen communication between the central bank and commercial financial institutions. The negative nominal interest rate policy is an unconventional monetary policy. Therefore, it is not suitable for long-term use and is a means of short- and medium-term economic regulation. Strengthen communication, eliminate long-term worries of commercial financial institutions on their



own interests, and cooperate with the national monetary authorities to carry out short- and medium-term regulation to better exert the effects of this policy;

Third, the government should strengthen its ability to support the economy. The flow released from commercial banks either enters the capital market or enters the real economy. No matter what you enter, you are faced with certain risks. At this time, if the government effectively fulfills its role in supporting the economy, strengthens support for the real economy, and formulates policies to help stabilize the capital market and reduce economic risks, this can also enable commercial banks to reduce the worry of funding, and better. Consciously cooperate with the implementation of the negative nominal interest rate policy.

Fourth, we must effectively promote financial market reform and improve the transmission mechanism of monetary policy. One reason for the use of unconventional monetary policy is that the transmission of traditional monetary policy is blocked, making the effect of traditional monetary policy less than expected. Actively promoting financial market reform and improving the transmission mechanism of monetary policy will also play an important role in eliminating long-term concerns about the policy and actively engaging in short-term cooperation;

Fifth, efforts should be made to speed up the construction and promotion of big data, the use of cloud computing, and provide a concrete and effective basis for the financial institutions of commercial financial institutions to enhance the efficiency of their capital use. This has an important role in stimulating commercial financial institutions to cooperate with policies and consciously revitalize their own liquidity.

## 7. Conclusion

Through the analysis of China's current economic situation, the meaning of negative interest rate policy, the explanation of history and the explanation of its transmission mechanism, and through the comparative analysis of China and the EU, we can see that in the new normal of China's economy, in order to promote business Banks have strengthened their financial support for SMEs and implemented and implemented monetary policies. The nominal negative interest rate policy has certain practicability and positive economic effects, and can be an option for monetary authorities in China to formulate monetary policies.

## Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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