

Quantitative Easing Feasibility Analysis: Based on Chinese Characteristics and Economic Stimulation Models

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Abstract. Recent discussions surrounding the People's Daily article on enhancing monetary and fiscal policy coordination, including increased treasury bond purchases, have raised questions about the potential adoption of Quantitative Easing (QE) in China. This paper conducts a feasibility analysis of implementing QE in China, considering the country's unique economic conditions and policy landscape. It argues against the adoption of QE, citing China's historically prudent monetary policy approach and the potential risks associated with large-scale asset purchases. The paper reviews China's approach to economic stimulation, highlighting the importance of monetary and fiscal policy coordination and targeted interventions, including government bond purchases used for specific objectives, rather than broad-based QE. It suggests that China should maintain its focus on conventional monetary policies, enhance existing tools, and prioritize strategies for investment stimulation and consumption boost. The analysis concludes that QE is neither suitable nor necessary for China's current economic context and that a more targeted and sustainable approach to economic stimulation offers a more effective path to long-term economic health. This study contributes to a nuanced understanding of QE's applicability in diverse economic contexts, particularly within a large, centrally planned economy like China's, and provides policymakers with alternative policy recommendations for promoting stable and sustainable growth.

Keywords: Quantitative Easing, Monetary Policy, Economic Stimulation, Fiscal Policy Coordination, Investment Stimulation.

1. Introduction

Quantitative Easing (QE) is a monetary policy where a central bank makes large purchases of financial assets, such as government bonds, to increase the money supply in the economy [1]. This policy is typically employed when traditional monetary policy, like lowering short-term interest rates, are no longer effective due to already low rates. By purchasing these assets, central banks aim to lower long-term interest rates, encourage spending and investment, and ultimately stimulate economic growth.

The effectiveness of QE in terms of supporting economic recovery was demonstrated during the 2008 financial crisis [2]. Further insights into the mechanisms of QE have been provided by Di Maggio et al. (2020) [3], who examined the refinancing channel and its impact on economic activity. However, the application of QE is not universally successful and can have varying effects depending on the economic context. Karadi & Nakov (2021) have discussed the potential addictiveness of QE and its long-term implications for monetary policy, highlighting the need for a nuanced understanding of its effects [4].

On April 23rd, Chinese People's Daily published an article, stating that to deepen the structural reform of the financial sector, China must strengthen the coordination between fiscal and monetary policies, increase the basic money supply, support the gradual increase of treasury bonds in the open market operation of the central bank, and enrich the monetary policy toolbox. This announcement immediately triggered an uproar in the market, with many media platforms asserting that the Chinese version QE was on the way. However, increasing purchase of treasury bonds isn't equivalent to Quantitative Easing. According to present situation, QE is not only unsuitable for China, but unnecessary as well.

In this paper, we examine the feasibility of QE, particularly in the context of China's unique economic conditions. This paper contributes to the existing literature by providing a targeted

feasibility analysis of QE in China, a topic that has been overlooked yet of great significance. It innovates by challenging the opinion that QE is a one-size-fits-all solution, emphasizing the importance of fiscal and monetary policy coordination, and suggesting tailored alternatives for financial recovery that align with China's specific context. Unlike previous studies that often generalize the effectiveness of QE across different economies, this paper provides a nuanced discussion of how traditional monetary policy tools remain effective in China, potentially offering a more sustainable path for economic stimulation than QE.

2. Legislation Constraint

As stipulated by Article 29 of Chapter IV of the Law of the People's Bank of China, Chinese central bank is prohibited from making direct purchases of government bonds in the primary market. However, the key of American QE lies in Fed directly participating in the auction of medium and long term government bonds in the primary market, thus lowering the long-term interest rates [5]. But in China, this method is apparently not feasible due to legislation constraint.

But that isn't to say the People's Bank of China (PBOC) can do nothing apart from adjusting interest rates. The clause does not exclude it from buying and selling Treasury bonds in the open market. Article 23 of the foregoing law states that for implementing monetary policy, PBOC can buy and sell Treasury bonds and other government bonds on the open market. Therefore, the buying and selling of Treasury bonds can become a necessary supplement to the open market operations.

For instance, as shown in Figure 1, in 2007, following China's entry into the World Trade Organization (WTO), the country experienced a dual surplus in its international balance of payments. This led to a rapid increase in foreign exchange reserves, putting significant pressure on PBOC to manage these funds. To alleviate this pressure and enhance the returns from foreign exchange operations, China issued a total of 1.55 trillion yuan in special treasury bonds in eight phases. These bonds were designed to provide a capital base for the establishment of the State Foreign Exchange Investment Corporation, which later turned out to manage these funds pretty effectively.

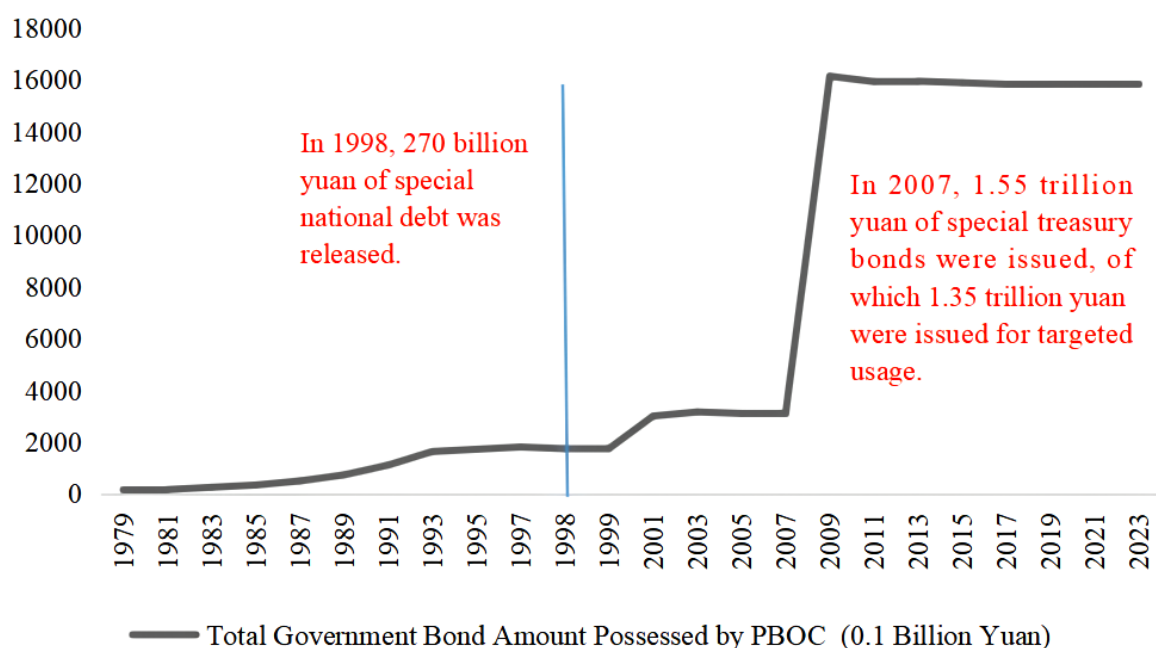


Figure 1. Total government bond amount possessed by PBOC from 1979 to 2023.

So from this case and other cases in 1998 and 2020 shown in Table.1. , we can see that China's central bank's purchasing government bonds in a large scale must have a specific purpose apart from simply boosting gloomy economy. And in current situation, although the economy is still undergoing a painful recovery period, traditional monetary policy still have room to work.

Table.1. Issuance of special government bonds in Chinese history

	1998	2007	2020
Background of issuance	To supplement the capital of state-owned commercial banks, enhance the capital adequacy ratio through fiscal capital injection, and stabilize market expectations, in 1998, the Ministry of Finance issued special treasury bonds worth 270 billion yuan to the four major banks.	After China joined the WTO, the balance of payments was in a dual surplus, with foreign exchange reserves growing rapidly. PBOC faced significant pressure to offset foreign exchange purchases. To alleviate this pressure, in 2007, China issued special treasury bonds worth 1.55 trillion yuan in eight installments to capitalize the establishment of the China Investment Corporation (CIC).	To counter the impact of the pandemic, the central government decided to issue 1 trillion yuan in special epidemic bonds. These funds will mainly be used to ensure employment, basic livelihoods, and market entities, including support for tax and fee reductions, rent and interest rate cuts, and expansion of consumption and investment.
Ways of issuance	All targeted at the four major banks	Targeted + Public Offering Issued 200.28 billion yuan to public investors, and issued 1.35 trillion yuan to domestic commercial banks.	Publicly issued in full
Issue term and scale	30-year, 270 billion yuan	10-year, 696.38 billion yuan 15-year, 853.85 billion yuan	5-year, 200 billion yuan 7-year, 100 billion yuan 10-year, 700 billion yuan
Issue scale as a percentage of nominal GDP for that year	3.17%	5.74%	0.99%

3. Traditional Monetary Policy

In 2008, U.S federal fund rate went all the way down to zero, leaving no room for traditional monetary policy. So QE is the only way out for the staggering American economy [6]. However, although recently, Chinese Loan market quoted interest rate (LPR) is gradually decreasing (shown in Table.2.), it still has a long way to go before reaching the zero bottom line. That is to say, traditional monetary policy is still useful and we don't need to take such an aggressive approach to boost economy like QE.

Table 2. The change of 5-year LPR from 2019 to 2024.

Adjusting time	5-year LPR	Fluctuation range
2019-11-20	4.80%	-5 BP
2020-2-20	4.75%	-5 BP
2020-4-20	4.65%	-10 BP
2021-12-20	4.60%	-5 BP
2022-5-20	4.45%	-15 BP
2022-8-22	4.30%	-15 BP
2023-6-20	4.20%	-10 BP
2024-2-20	3.95%	-25 BP

4. China's Prudent Monetary Policy Tone

In traditional Chinese philosophy, "the doctrine of mean" is highly valued. And in terms of monetary policy, we also don't favour a hyper-radical policy. PBOC always pursues a prudent monetary policy, trying hard to sustain interest rate in a reasonable region, neither too high nor too low. If the interest rate is too high, the demand for loan will shrink which will stifle economic

development especially the real economy; and if the interest rate is too low, this is also not sustainable in the long run.

The detrimental effect of a super low interest rate can be seen from the case of Silicon Valley Bank's bankruptcy [7-8]. In March 2023, Silicon Valley Bank went bankrupt, which was largely due to the large amount of low liquidity long-term treasury bonds it held. In 2020, Silicon Valley Bank used most of its deposits to buy low interest long-term U.S government Treasury bond. This means at that time, the price of long-term U.S government Treasury bond is at its highest level. After the Fed raised the interest rate, the price of long-term U.S government Treasury bond plummeted, resulting in a large number of unrealized loss to Silicon Valley Bank. This triggered public panic and bank run, forcing Silicon Valley Bank to sell those long-term U.S government treasury bonds and ended up with a huge realized loss, ultimately leading to its bankruptcy.

So from this case we can see if the interest rate is too low, once the interest rate goes up in the future, those banks and insurance institutions holding a lot of low interest rate government bonds will face a huge risk.

Therefore, China's prudent monetary policy will remain to be a long-term trend and the interest rate will be unlikely to reach zero. In other words, Chinese central bank will always have room in terms of traditional monetary policy and thus QE is unnecessary. Furthermore, to ensure the interest rate fluctuate in a sustainable zone, Chinese central bank will take a bidirectional measure: not only buy government bonds to lower interest rate, but also sell government bonds if the interest rate goes too low. This is a lot different from QE.

Recently, rumors are circulating that the central bank is going to buy government bonds. However, actually Chinese Central Bank is selling instead of buying government bonds. The main reason for that is to crack down on investors who arbitrage on treasury bonds. Since the larger the demand for government bond, the higher the government bonds' nominal price, speculative investors will first buy massive amount of government bonds to drive up the price, then sell them to pocket the difference. This kind of behavior will make the real rate of return shrink, which will greatly influence banks and insurance companies since government bonds take a large proportion of their assets.

This theory can be directly reflected in the recent reality. In the first quarter of 2024, the yield of Industrial and Commercial Bank of China and China Construction Bank has shrunk by nearly 3%, and the yield of Agricultural Bank of China, CITIC Bank and China Merchants Bank has fallen by roughly 2%, which is largely due to the arbitrage behavior of speculative investors. Since banks serve as the cornerstone of China's financial system, it's of utmost importance to guard their safety. That's the reason why instead of asking central bank to buy large quantity of government bonds, we need to sell government bonds recently to help the financial system better recover.

5. The Potential Risks of QE

5.1. Inflation

Although QE is designed to combat deflation, if not handled well, it can also lead to uncontrollable inflation [9]. In 2008, U.S handled QE well and limited inflation rate to an ideal 2%.(shown in Figure 2) That's because although Fed bought large amount of government bond and increased commercial bank reserve, due to high default risk, those commercial banks were not willing to make loans to the real economy. Instead, they deposited their extra reserve in the Fed. As a result, since little money flowed into the real economy, the inflation rate is perfectly under control.

However, in 2020, when the COVID-19 epidemic caused recession again, Fed wanted to use the same old trick and bought unlimited amount of government bonds. But this time, compounded with fiscal policy of large government transfer payment, the money flowing into the real economy soared, thus leading to hyperinflation of up to 9.10% (shown in Figure 2), far exceeding the ideal 2%-3%.

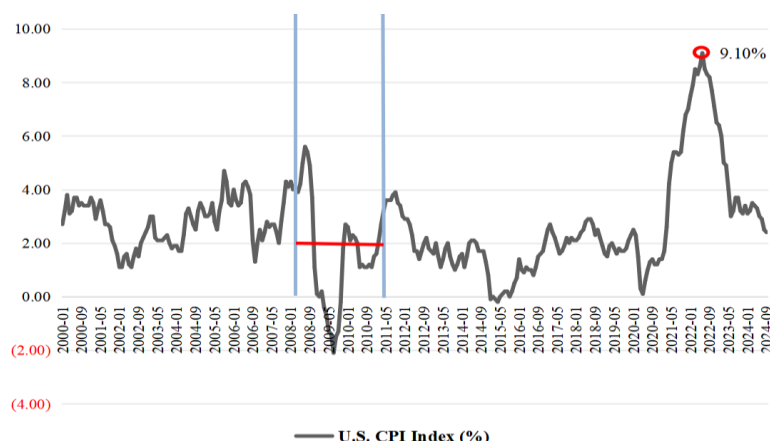


Figure 2. U.S. CPI index from 2020 to 2024.

On the other hand, according to the data released by PBOC, by the end of March 2024, China's broad money (M2) balance broke through 300 trillion yuan, exceeding the sum of M2 of U.S and the euro zone at the end of January. This indicates that Chinese market is not short of money, but lack of high-quality investment projects and good expectations for the future. Therefore, what China needs to do is to make money flow to the real economy to help the staggering enterprises, rather than just boost the stock market as QE will mostly likely do.

5.2. Wider Gap between the Rich and the Poor

Achieving common prosperity is always an important part of China Dream. If QE is implemented to boost real economy, the inflation it causes will further widen the gap between the rich and the poor. Since the price of assets, like stocks and houses, will go up together with the inflation, the impact on those people holding assets may be less severe. But for those people without assets, their wages may not be indexed to the inflation timely, thus making them victims to QE.

In the U.S, we can see from Figure 3 that after the subprime mortgage crisis in 2008, the wealth of the poorest 50%, and 40% of the middle class just remained unchanged, only the wealth of the richest 10% of the population surged. Since the implementation of QE, the gap between the rich and the poor has been continuously widening. This is because the unlimited printing of money by QE will first enrich people with assets, driving up asset-price bubbles. And those poor people without assets didn't benefit from QE at all. And this widened gap is what China least want to see.

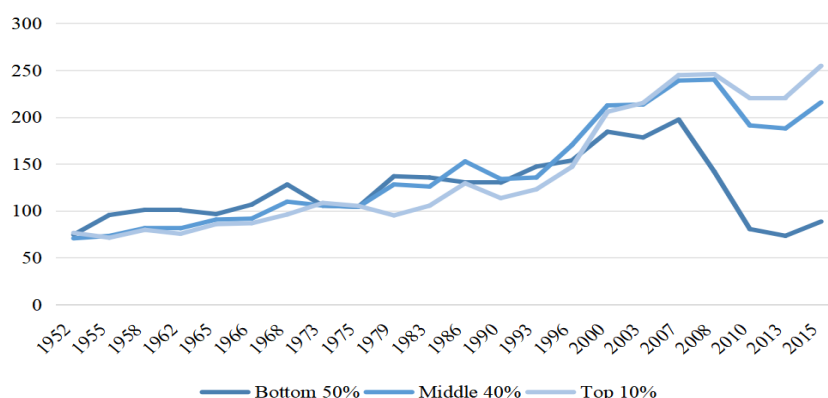


Figure 3. U.S. Household Wealth Index for different social classes from 1952 to 2015. (*Index 1971 = 100).

5.3. RMB Depreciation and Hot Money Effect

If QE is implemented, the increasing amount of money supply will definitely cause RMB depreciation and lower interest rate. This can cause serious result like “hot money effect”. Hot money effect usually refers to the rapid flow of large amounts of short-term funds in international financial

markets. These funds are in pursuit of higher rate of return, which will be frequently transferred between different financial instruments, markets or countries [10].

The lower interest rate caused by QE will make hot money flow out of China and seek greener grass, while RMB depreciation will probably attract investors who want to arbitrage on exchange rate fluctuation. The quick inflow and outflow of hot money will aggravate the fluctuation of financial market and increase market uncertainty.

5.4. Debt Monetization

The Bank of Japan (BOJ) started QE in 2001 as a response to a decade of economic stagnation and deflation. The central bank implemented a policy that involved a significant expansion of the monetary base, primarily through the purchase of Japanese government bonds. This move aimed to stimulate the economy by increasing reserves in the banking system and flattening the yield curve, thus encouraging lending and investment. However, the effectiveness of this policy in terms of inflation and economic growth was mixed.

In 2006, BOJ abruptly slammed on the brakes of its QE policy, by withdrawing its reserves suddenly. Figure 4 shows that banks' excess reserves rose step by step from about 5 trillion yen to about 33 trillion yen over the course of about two and a half years, but then plummeted to a mere 8 trillion yen over just a few months in 2006. This move, driven by fears of inflation, set the stage for the monetization of government debt in the years that followed [11].

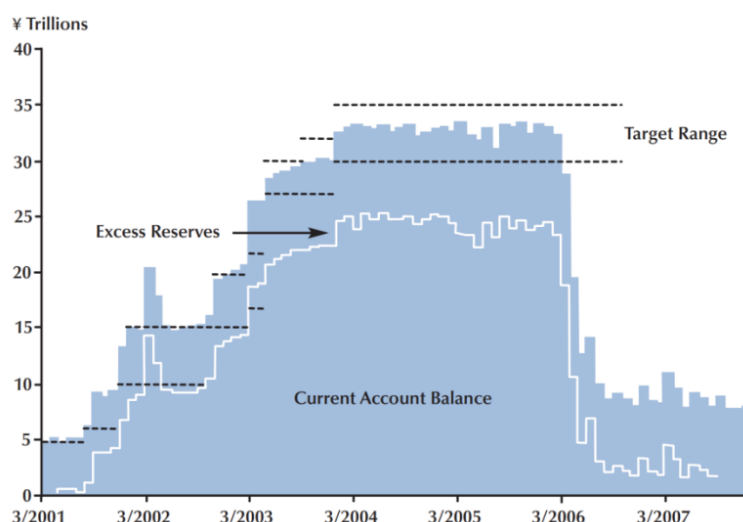


Figure 4. Japanese bank reserves fluctuation during the QE period.

As the years passed, the accumulation of government debt became a growing concern due to the persistent low-interest-rate environment. This situation eventually led to a shift towards debt monetization, where the BOJ had to directly purchase government bonds to finance the debt [12]. Debt monetization, also known as monetary financing, means that the government finances public debt by printing money, rather than through tax revenues or borrowing. Although this practice has lowered Japan's debt risk to some extent in the short run, its aftereffects are detrimental in the long run.

Japan's massive expansion of government debt has led to interest payments accounting for as much as 25% of fiscal spending. We can see from Figure 5 that the Japanese government sector leverage remains the highest since 2001 and even reached a massive 262% in 2021, way higher than any other major economy. And Figure 6 shows that Japan's national debt repayment mainly relies on borrowing new to repay old, which is theoretically unsustainable. In the face of a weak yen and reduced demand, the pressure from debt interest makes it challenging for monetary policy to raise interest rates in order to provide support. In the long term, maintaining an extremely low interest rate can keep inefficient companies afloat, hinder market clearing, and exert downward pressure on productivity growth and economic development.

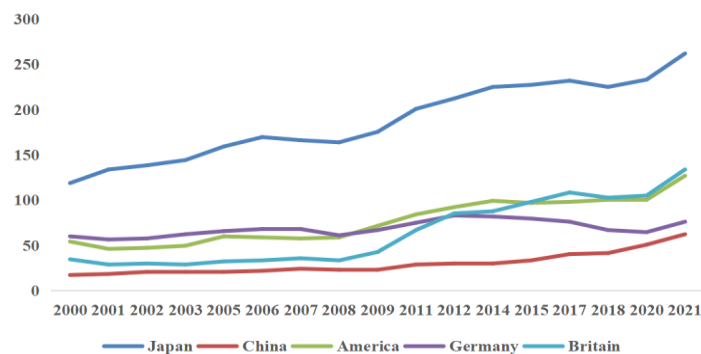


Figure 5. Government sector leverage (% of GDP) for five major economy from 2000 to 2021.

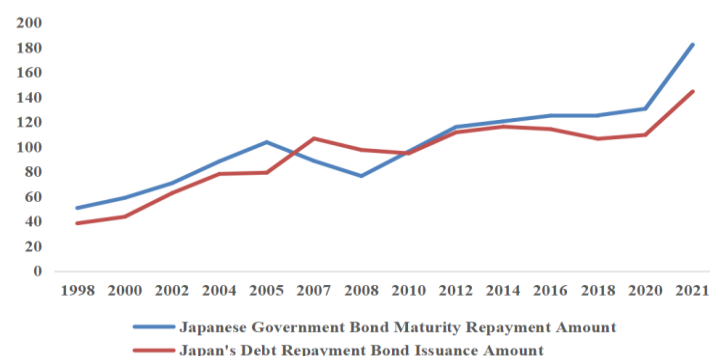


Figure 6. Japanese government bond repayment and issuance amount (trillion yen) from 1998 to 2021.

Therefore, to avoid falling into the same vicious cycle as Japan, China should seek alternative ways to resolve recession by employing precise measures rather than implementing “flood irrigation” [13].

6. Chinese Creative Way of Financial Recovery

China has its own special national conditions, and simply copying other countries' way to fight against economic downturn will definitely bring about tremendous risks. Therefore, instead of simply replicate QE, China should, and must come up with its own creative way of financial recovery.

The two major driving forces for China's GDP is investment and consumption. And between the two, investment is the main driving force for China's economic growth. Figure 7 shows the contribution of consumption and investment to GDP growth from 2000 to 2020. It's evident that investment accounts for a larger proportion of GDP growth rate and also, its high volatility contributes to the overall volatility level of GDP growth rate. Therefore, in order to boost Chinese economy, Chinese government needs to find ways to stimulate investment and consumption, by gradually guiding money to flow to the real economy.

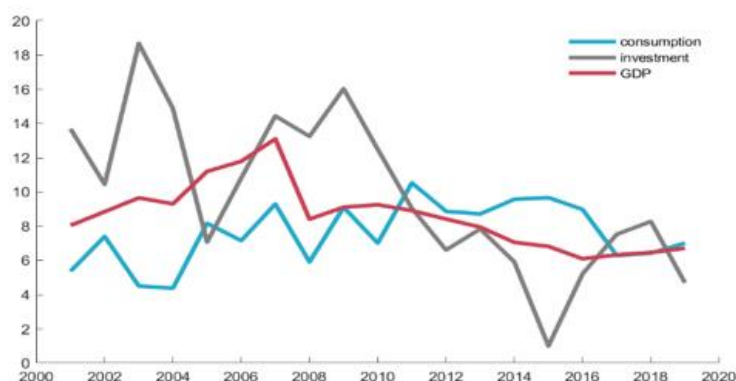


Figure 7. The contribution of consumption and investment to GDP growth from 2000 to 2020.

6.1. Investment Stimulation

The key to stimulate the investment lies in alleviating uncertainty and breaking financial constraint [14]. This point can be proven with theoretical analysis.

Suppose now we have two periods. In period 1, there is high uncertainty and entrepreneurs don't exactly know the quality of the project. But in period 2, the uncertainty is alleviated. However, entrepreneurs are only allowed to invest once.

If the entrepreneur decides to invest in period 1, it faces a random quality z . z follows a binomial distribution:

$$z = \begin{cases} z_{\min}, & \text{with prob. } p \\ z_{\max}, & \text{with prob. } 1 - p \end{cases} \quad (1)$$

The project has a production function:

$$y = zk^{\alpha}l^{\beta} \quad (2)$$

k : capital input α : weight of capital input

l : labor input β : weight of labor input (3)

z : productivity, representing the profitability of the project

With a startup fund e , the firm can borrow b from the bank with a loan rate of r . The flow of funds constraint is:

$$k = e + b \quad (4)$$

The profit is:

$$\begin{aligned} \Pi &= zk^{\alpha}l^{\beta} + (1 - \delta)k - (1 + r)b \\ &= zk^{\alpha}l^{\beta} + (1 - \delta)k - (1 + r)(k - e) \end{aligned} \quad (5)$$

δ : depreciation rate
 r : risk free interest rate

Solve the optimal problem:

$$\max_k zk^{\alpha}l^{\beta} + (1 - \delta)k - (1 + r)(k - e) \quad (6)$$

The optimal level of capital k satisfies:

$$\alpha zk^{\alpha-1}l^{\beta} + 1 - \delta = 1 + r \quad (7)$$

$$k = \left(\frac{\alpha l^{\beta}}{r + \delta} \right)^{\frac{1}{1-\alpha}} \quad (8)$$

The expected net profit is:

$$E[\Pi^*(z)] - \phi = (1 - \alpha)l^{\beta} \left(\frac{\alpha l^{\beta}}{r + \delta} \right)^{\frac{\alpha}{1-\alpha}} E^{\frac{1}{1-\alpha}}(z) + (1 + r)e - \phi \quad (9)$$

where ϕ is the fixed cost and $E(z) = pz_{\min} + (1 - p)z_{\max}$

If the entrepreneur chooses not to invest in period 1 and wait until the next period, it already knows the quality of the project z , so the expected value in the next period is:

$$V = E \{ \max [\Pi^*(z) - \phi, (1+r)e] \} \quad (10)$$

Or equivalently:

$$V = (1-p) \left\{ (1-\alpha) l^\beta \left(\frac{\alpha l^\beta}{r+\delta} \right)^{\frac{\alpha}{1-\alpha}} z_{\max} + (1+r)e - \phi \right\} + p(1+r)e \quad (11)$$

Since wait until the uncertainty resolves can help the entrepreneur avoid the bad situation $z = z_{\min}$, it will obtain an expected value of βV where β is the discount rate and $0 < \beta < 1$. Therefore, invest or not depends on which one has a larger value:

$$E[\Pi^*(z)] - \phi \text{ vs } \beta V \quad (12)$$

Therefore, on the one hand, when the entrepreneur faces a higher uncertainty, waiting becomes more attractive because the expected value of waiting in the next period V gives a higher value since it doesn't have to bear the risk of bad outcome. This leads to the wait-and-see effect and greatly depresses the current investment amount.

On the other hand, the decision to invest or not depends on:

$$\Delta W = E[\Pi^*(z)] - \phi - (1+r)e \quad (13)$$

Invest if $\Delta W > 0$, otherwise not invest.

ΔW is positively related with $E(z)$.

Therefore, when $E(z) > E(z^*)$, where $E(z^*)$ satisfies $\Delta W^* = 0$, individual optimal investment is:

$$k_i = \left(\frac{\alpha z_i l^\beta}{r+\delta} \right)^{\frac{1}{1-\alpha}} \quad (14)$$

i: different firm's ID

$$z_i \in [E(z^*), z_{\max}]$$

Aggregate investment on the whole economy is:

$$I = \sum_i k_i = \sum_i \left(\frac{\alpha z_i l^\beta}{r+\delta} \right)^{\frac{1}{1-\alpha}} \quad (15)$$

for any firm with $z_i > E(z^)$*

We can observe that I also has a positive relationship with z , and their relationship can be depicted in Figure 8.

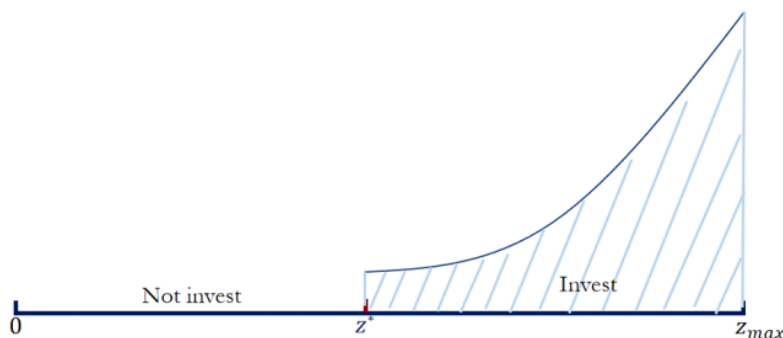


Figure 8. The relationship between total investment amount and project quality z . However, the entrepreneurs face borrowing constraint:

$$k - e \leq \lambda e \quad (16)$$

$$k \leq (1 + \lambda)e \quad (17)$$

λ : leverage ratio λe : the upper bound of loan

So entrepreneurs who demand $k_i > (1 + \lambda)e$ will be financially constraint, or equivalently:

$$k_i = \left(\frac{\alpha z_i l^\beta}{r + \delta} \right)^{\frac{1}{1-\alpha}} > (1 + \lambda)e \quad (18)$$

$$z_i > \frac{(r + \delta) [(1 + \lambda)e]^{1-\alpha}}{\alpha l^\beta} \quad (19)$$

Therefore, due to financial constraints, the efficiency of the whole economy will be lower because high-quality entrepreneurs cannot borrow, as shown in Figure 9.

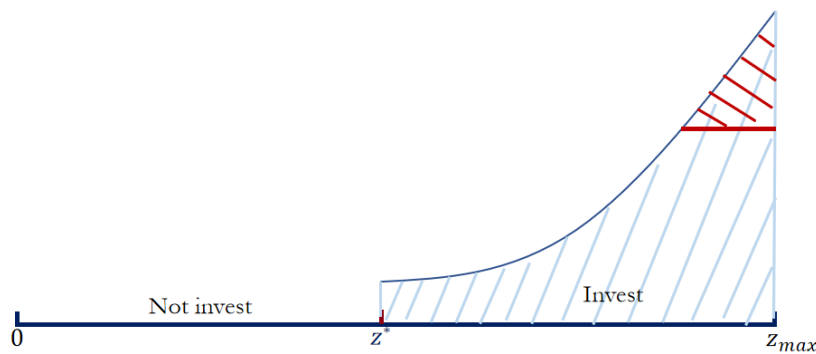


Figure 9. The relationship between total investment amount and project quality z with financial constraint.

From the above analysis we can conclude that to boost investment, two effective way is to alleviate uncertainty and break financial constraint for entrepreneurs. And of course without thw help of QE, China can still achieve these two goals through targeted subsidy.

In 2024, China is going to issue a one trillion yuan worth of ultra-long-term special treasury bonds to ease the financial downturn. This measure can provide high-quality bonds for investors and at the same time, the money the government collected is used in tailored projects to directly subsidize the real economy.

If the government subsidizes the entrepreneurs proportionate to their output, the entrepreneur's profit becomes:

$$E[\Pi^*(z_i, \tau)] = \max_{k_i} (1 + \tau) E(z_i) k_i^\alpha l_i^\beta + (1 - \delta) k_i - (1 + r) (k_i - e) \quad (20)$$

The optimal level of capital satisfies:

$$\begin{aligned} \alpha(1 + \tau) E(z_i) k_i^{\alpha-1} l_i^\beta + 1 - \delta &= 1 + r \\ \Rightarrow k_i &= \left(\frac{\alpha(1 + \tau) E(z_i) l_i^\beta}{r + \delta} \right)^{\frac{1}{1-\alpha}} \end{aligned} \quad (21)$$

Under the subsidy, the net profit of the entrepreneur is:

$$E[\Pi^*(z_i, \tau)] - \phi = (1 - \alpha) (1 + \tau)^{\frac{1}{1-\alpha}} E(z_i)^{\frac{1}{1-\alpha}} l_i^{\frac{\beta}{1-\alpha}} \left(\frac{\alpha}{r + \delta} \right)^{\frac{\alpha}{1-\alpha}} + (1 + r)e - \phi \quad (22)$$

The investment decision in period 1 is determined by:

$$\max \{ E[\Pi^*(z_i, \tau)] - \phi, (1 + r)e \} \quad (23)$$

Also, to decide whether to invest or not, the entrepreneur will consider the expected value of investing in the next period βV , where β is the discount rate:

$$V = (1-p) \left\{ (1-\alpha)(1+\tau)^{\frac{1}{1-\alpha}} z_{\max}^{\frac{1}{1-\alpha}} l_i^{\frac{\beta}{1-\alpha}} \left(\frac{\alpha}{r+\delta} \right)^{\frac{\alpha}{1-\alpha}} + (1+r)e - \phi \right\} + p(1+r)e \quad (24)$$

Therefore, investing in which period depends on which one has a larger value:

$$E[\Pi^*(z_i, \tau)] - \phi \text{ vs } \beta V \quad (25)$$

If $E[\Pi^*(z_i, \tau)] - \phi > \beta V$, the entrepreneur will choose to invest in period 1, and the projects expected quality z must be above the threshold $E(z^*)$:

$$(1-\alpha)(1+\tau)^{\frac{1}{1-\alpha}} E(z_i^*)^{\frac{1}{1-\alpha}} l_i^{\frac{\beta}{1-\alpha}} \left(\frac{\alpha}{r+\delta} \right)^{\frac{\alpha}{1-\alpha}} + (1+r)e - \phi = 0 \quad (26)$$

So here we can clearly see that a large subsidy can not only reduce the threshold $E(z^*)$, encouraging more entrepreneur to enter the market and invest, but also increase the probability of entrepreneur to invest in the current period instead of waiting until the next period. This can lead to extensive margin and intensive margin phenomena in the current period, as shown in Figure 10.

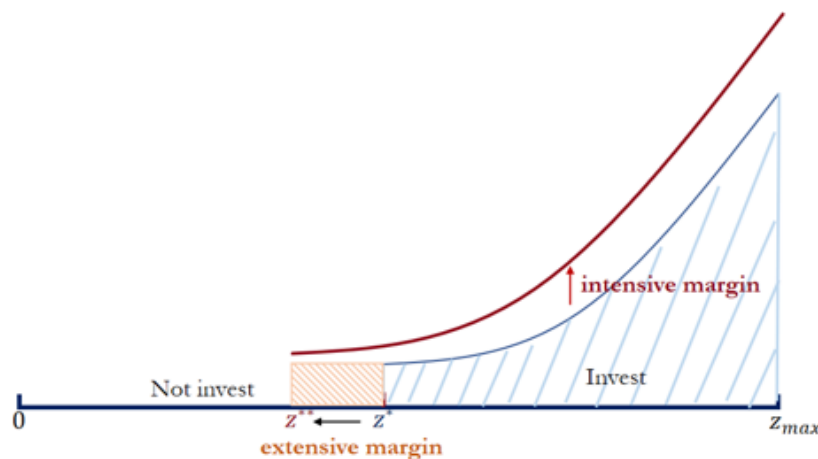


Figure 10. The extensive and intensive margin.

6.2. Consumption Boost

The key to boost consumption lies not in giving the public huge amount of money to spend at the current period, but in shifting the public expectation about the future economic prospect [15]. Therefore, from this perspective, although injecting large liquidity into the market by QE can accumulate public wealth and encourage consumption for the short term, it does little in changing public expectation for the very long term, thus limiting its influence.

Therefore, instead of employing QE to boost consumption, Chinese government should come up with creative ways to improve Chinese staggering long-term consumer expectations, such as using its monetary and fiscal policy to change the overall economic outlook and make promise to the public to make an effort in long-term economic boost. Also, to bolster residents' income and consumption power, the government should emphasize stable employment and income growth, alongside bolstering social security and public services.

7. Conclusions

In conclusion, every economy has its own features and no method is a one-size-fits-all antidote. The implementation of monetary policy and fiscal policy is always a trade-off between the pros and cons. At current stage, QE isn't suitable for Chinese economy. China is obviously not in the

environment of liquidity shock, and the credit supply of China's banking system is relatively stable. Meanwhile, there is still room for conventional monetary policy tools. Also, although QE may bring immediate boost to the stock market and the financial system, it can be likened to the Siren's Songs, which is sweet in the short run, but breeds inflation risk in the long run. Therefore, it's better for Chinese central bank to continue the bidirectional prudent monetary policy and focus on reviving the real economy, particularly investment and consumption, to help China achieve new economic take-off.

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