

## **Macroeconomic Impacts of China's Foreign Exchange Reserve Accumulation:**

### **A VAR analysis using pure sign restrictions approach**

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This study treats reserve accumulation as a kind of shock and explores its impacts on macroeconomics utilizing the method of the method of Uhlig (2005) and Mountford and Uhlig (2009). In order to figure out the impacts of reserve accumulation more precisely, I make three comparative analysis. I find that reserve accumulation directly cause funds outstanding for foreign reserve, basic money and domestic credit increase; indirectly cause output growth, inflation pressure and RMB appreciation under the traditional impulse responses analysis. On the contrary, I found that the effects of reserve accumulation shocks on all of the variables are ambiguous at the beginning under the impulse responses analysis by pure-sign restrictions. These results got me think that the assumption for the variable order according to IS-LM model maybe have potential impact on the results of impulse responses analysis. In addition, from the prospective the sterilization intervention, I believe that the effect of sterilization intervention significantly improves even though the effect of sterilization intervention degrade gradually as time passes by in China.

Key words: reserve accumulation shock, IS-LM model, pure-sign restrictions, sterilization intervention