

Research on the Macroeconomic Effects of LPR Reform and the Path of Interest Rate Liberalization Reform

Wenxin Zang*

School of Economics and Management, China University of Petroleum (East China), Qingdao, China

Email address:

zang_wenxin1126@163.com (Wenxin Zang)

*Corresponding author

Abstract

Interest rate liberalization lies at the core of China's financial reform. As a key measure to break the dual-track interest rate system and improve monetary policy transmission, the Loan Prime Rate (LPR) reform has driven the in-depth development of domestic interest rate liberalization. However, the LPR policy still faces deficiencies in macroeconomic regulation, regional implementation and policy coordination. It is therefore crucial to evaluate its macroeconomic effects and explore optimized paths for interest rate liberalization. This paper aims to examine the dynamic macroeconomic impacts of the LPR reform, analyze its internal mechanisms and regional heterogeneity, and propose practical paths for further interest rate liberalization. Taking the 2019 LPR pricing mechanism reform as a quasi-natural experiment, this study adopts the theories of financial repression, financial deepening and interest rate transmission. Based on the quarterly panel data of 31 provincial-level regions in China from Q1 2017 to Q3 2025, this paper conducts empirical tests by using the Difference-in-Differences model, mediating effect model and moderating effect model. The results show that the LPR reform exerts a remarkable counter-cyclical effect, which effectively boosts economic growth and stabilizes prices. Corporate financing costs act as a vital mediating variable between the reform and macroeconomic performance. Macroeconomic fluctuations and regional interest rate liberalization levels significantly moderate the policy effects. In addition, obvious regional heterogeneity exists: the policy impact is much stronger in central and western regions than in eastern regions. Accordingly, this paper suggests establishing a differentiated regional interest rate transmission mechanism, improving the linkage between LPR and deposit rates, strengthening multi-policy coordination and optimizing the LPR formation mechanism to steadily advance China's interest rate liberalization.

Keywords

LPR Reform, Interest Rate Liberalization, Macroeconomic Effect, Regional Heterogeneity, Interest Rate Transmission