CHINA’S MONETARY POLICY: WHERE ARE WE NOW?

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OPERATING MECHANISM

- **PBC IS NOT A LEGALLY INDEPENDENT CENTRAL BANK**
  - One of the 26 ministerial-level departments of the State Council
  - The PBC Law explicitly states that the PBC formulates and implements monetary policy under the State Council
  - Some Trump advisers argue that the president should be consulted on interest-rate decision?

- **POLICY OBJECTIVES**
  - *Maintaining price stability*, boosting economic growth, promoting employment, and broadly *maintaining balance of payments* (Zhou, 2016)
  - Like recently “we must not only…, but also…, while still …, ultimately achieving…”
  - facilitating structural changes and improving social welfare

- **DECISION-MAKING PROCESS**
  - Approval from the State Council required to adjust important policy instruments, such as the benchmark deposit and lending rates and **RRR**
  - But enjoys a certain degree of operational autonomy on other policy tools
OPEN MARKET OPERATION

**REPURCHASE AGREEMENT**
- Repo: The PBC withdraws liquidity from the market
- Reverse repo: The PBC injects liquidity to the market (mainly 7-day)

**CENTRAL BANK BILL**
- Central bank bills were used as a sterilization instrument for Funds Outstanding for FX
- Now frequently used in the Hong-Kong off-shore RMB market

**OUTRIGHT BOND TRANSACTIONS**
- Recently the PBC hints it may add treasury transactions to policy toolkit?
<table>
<thead>
<tr>
<th>LIQUIDITY FACILITIES</th>
<th>Introducing Year</th>
<th>Usage of Funding</th>
<th>Banks</th>
<th>Collateral Required</th>
<th>Tenor</th>
<th>Balance, by Mar 2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standing Lending Facility (SLF)</td>
<td>Early 2013</td>
<td>-</td>
<td>Policy banks and national commercial banks</td>
<td>High-quality bonds and credit assets</td>
<td>1 day – 1 month</td>
<td>3.42 billion</td>
</tr>
<tr>
<td>Pledged Supplementary Lending (PSL)</td>
<td>Apr. 2014</td>
<td>Specific policy targets/programs such the shantytown renovation</td>
<td>Policy banks</td>
<td>Adjustable by the PBC</td>
<td>Normally &gt; 3 years</td>
<td>3,370 billion</td>
</tr>
<tr>
<td>Medium-term Lending Facility (MLF)</td>
<td>Sep. 2014</td>
<td>-</td>
<td>Qualified commercial banks and policy banks</td>
<td>High-quality bonds</td>
<td>3-12 months</td>
<td>7,198 billion</td>
</tr>
<tr>
<td>Targeted Medium-term Lending Facility (TMLF)</td>
<td>Dec. 2018</td>
<td>Private sector and SMEs</td>
<td>Qualified commercial banks and policy banks</td>
<td>High-quality bonds</td>
<td>3 years</td>
<td>0</td>
</tr>
</tbody>
</table>

...
Everyday repo transactions. Anchored by interest rate corridor, excess reserve rate ~ SLF rates

MLF transactions per month

Approval from the State Council required

DR007, Depository-Institutions Repo Rate

Money Market

LPR

Credit Market

No explicit floating ceiling or floor. But implicit floating ceiling for deposit rates and floor for lending rates
Large Depository Institutions

Medium and Small Depository Institutions
INTEREST RATES

Benchmark Rates

US: EFFR
CHINA: LPR, 1Y
OFF-SHORE MONETARY POLICY

CNH Deposits in Hong Kong

Trillion RMB (Bar)

- Demand Deposits
- Term Deposits
- Remittance of CNH for Cross-Border Trade Settlement

2005-01 to 2024-01
Other two tools: CNH reserves and off-shore central bank bills
CONCLUDING REMARKS

- PBC (AND BEIJING) HAS RESPONDED QUITE A BIT IN THE PAST YEAR
  - PBC has been the most “professional” team in China’s bureaucratic agencies

- PROFESSIONALS, PRACTITIONERS, AND ECONOMISTS ARE SEEKING MORE
  - “More” means bigger fiscal policies, like in 2009 four-trillion stimulus!

- I AM STRONGLY AGAINST IT
  - Not much fiscal capacity at this point
  - Monetary responses seem more benign and less overhang for the future