

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?



LIQUIDITY FACILITIES

	Introducing Year	Usage of Funding	Banks	Collateral Required	Tenor	Balance, by Mar 2024
Standing Lending Facility (SLF)	Early 2013	-	Policy banks and national commercial banks	High-quality bonds and credit assets	1 day – 1 month	3.42 billion
Pledged Supplementary Lending (PSL)	Apr. 2014	Specific policy targets/programs such the shantytown renovation	Policy banks	Adjustable by the PBC	Normally > 3 years	3,370 billion
Medium-term Lending Facility (MLF)	Sep. 2014	-	Qualified commercial banks and policy banks	High-quality bonds	3-12 months	7,198 billion
Targeted Medium-term Lending Facility (TMLF)	Dec. 2018	Private sector and SMEs	Qualified commercial banks and policy banks	High-quality bonds	3 years	0
					

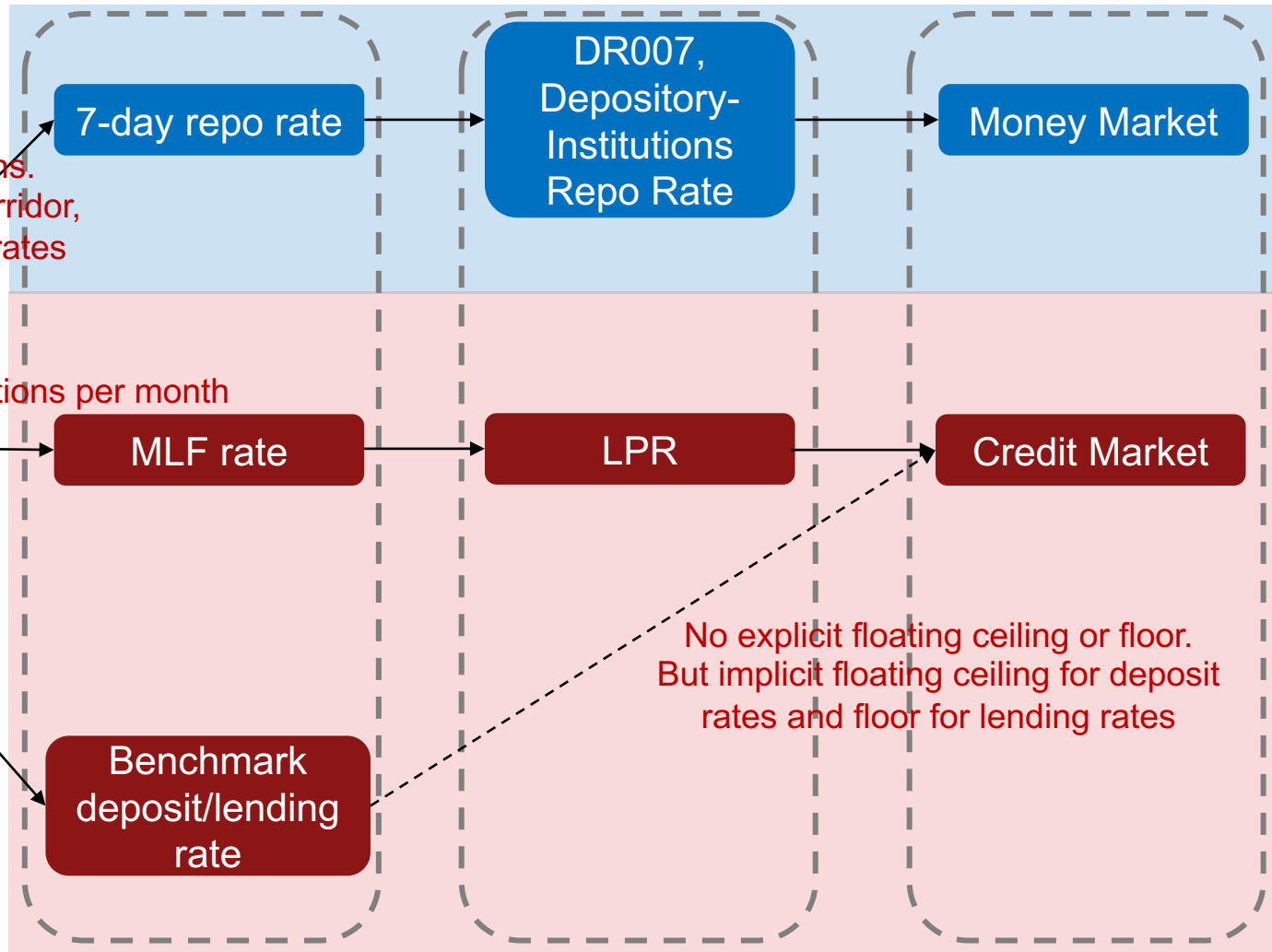


TRANSMISSION OF MONETARY POLICY

Policy Rates

Market Benchmark Rates

Market Rates



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

MLF transactions per month

Approval from the
State Council required

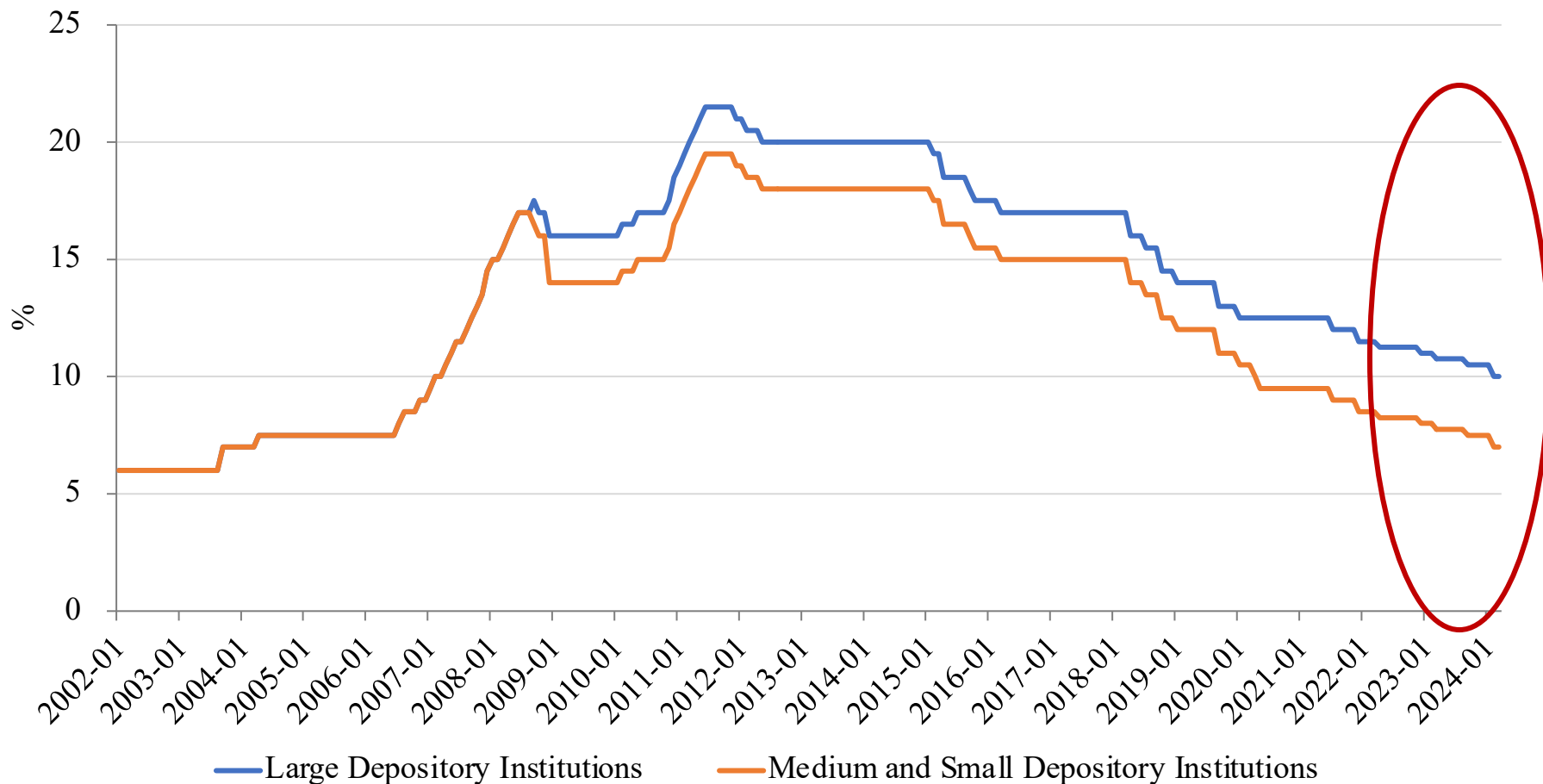
No explicit floating ceiling or floor.
But implicit floating ceiling for deposit
rates and floor for lending rates



PBC

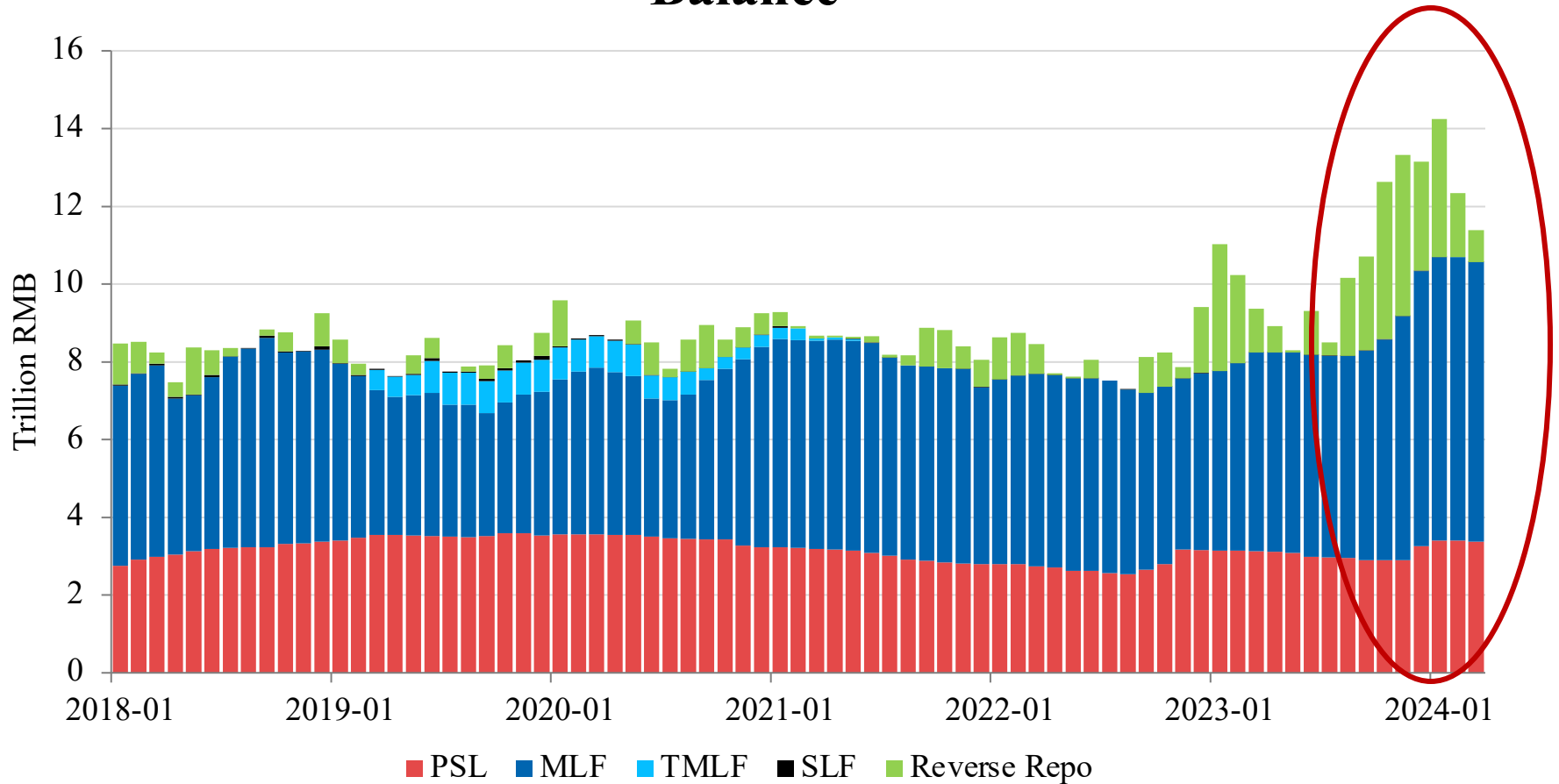


RRR



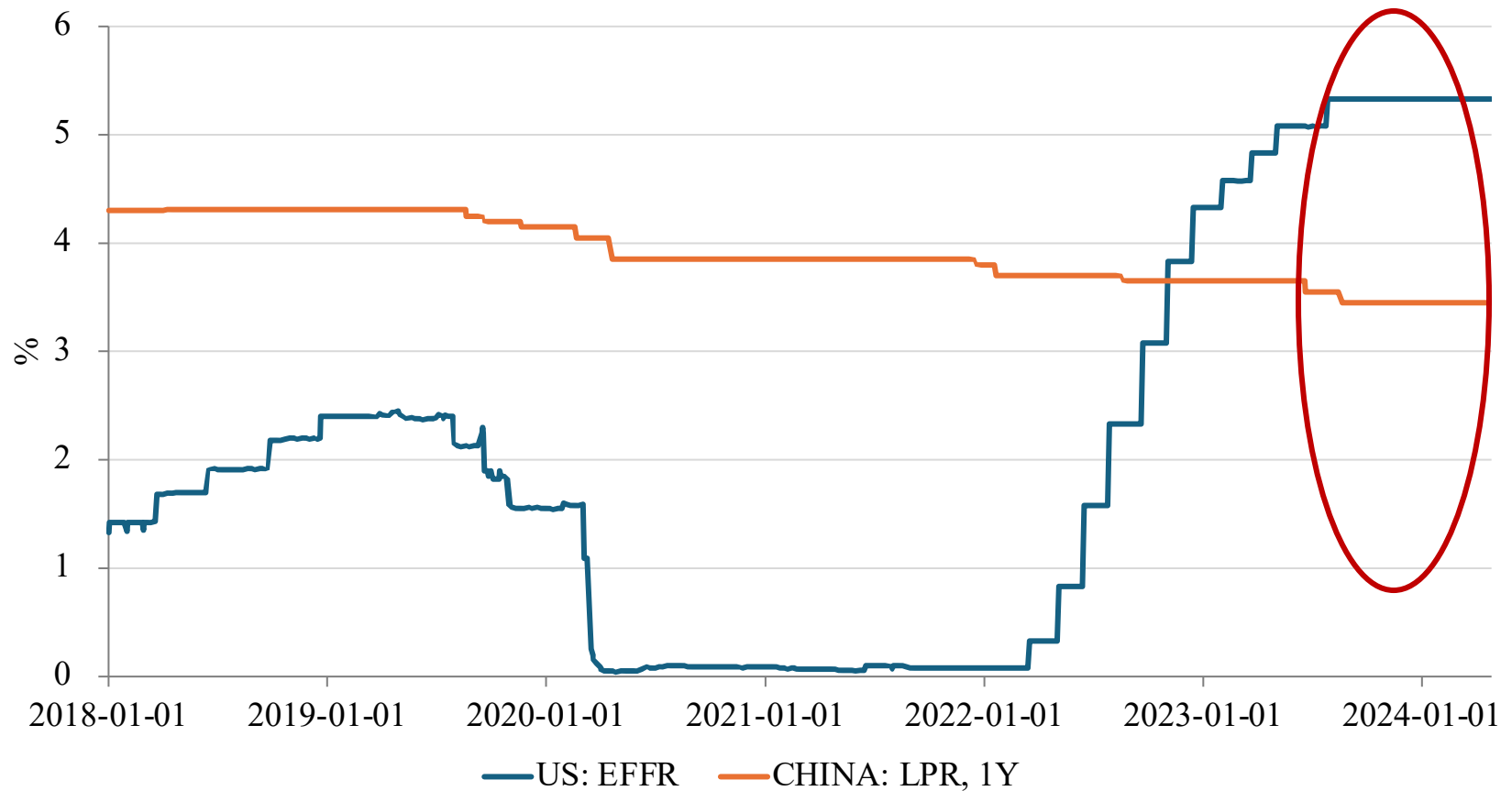
LIQUIDITY FACILITIES AND REVERSE REPO

Balance



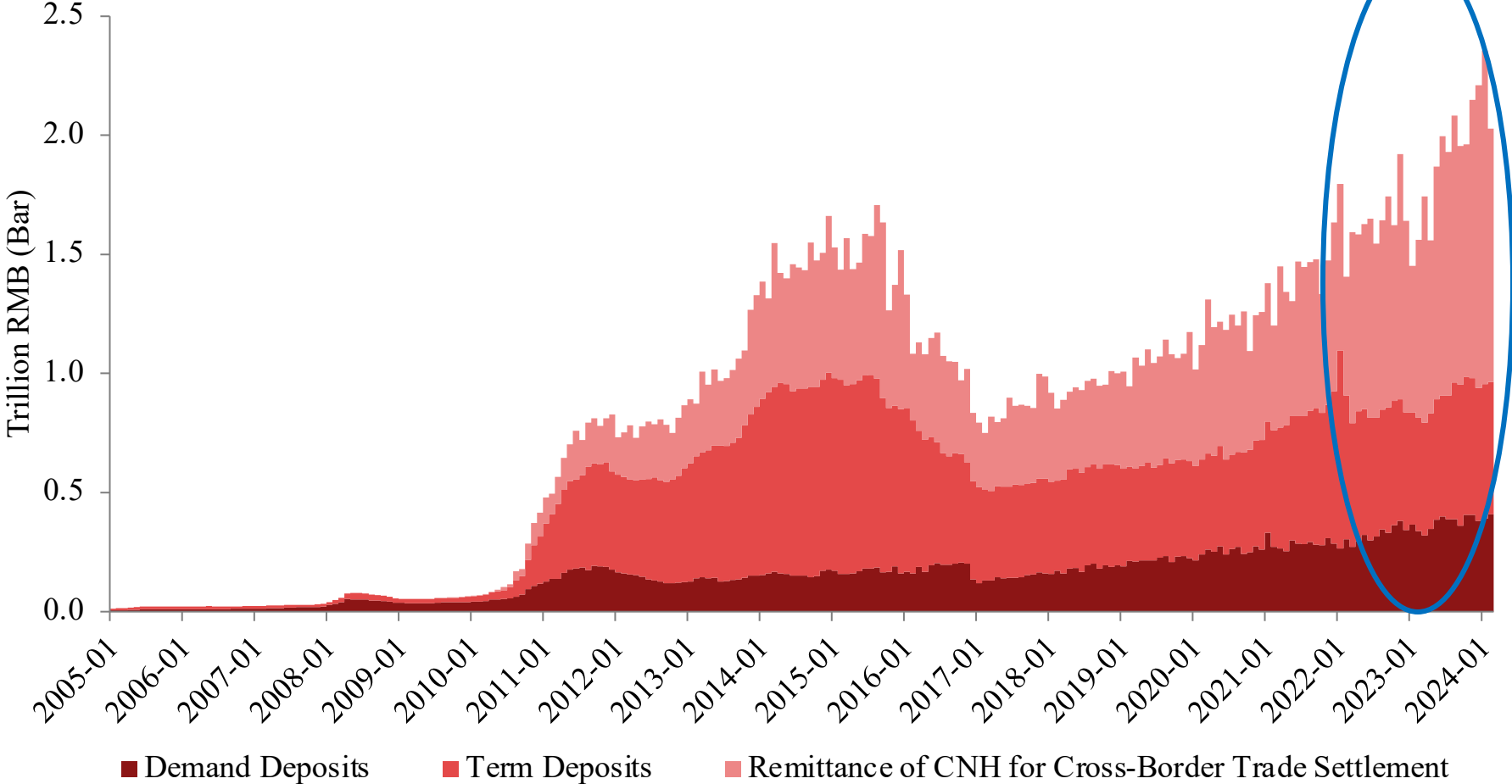
INTEREST RATES

Benchmark Rates



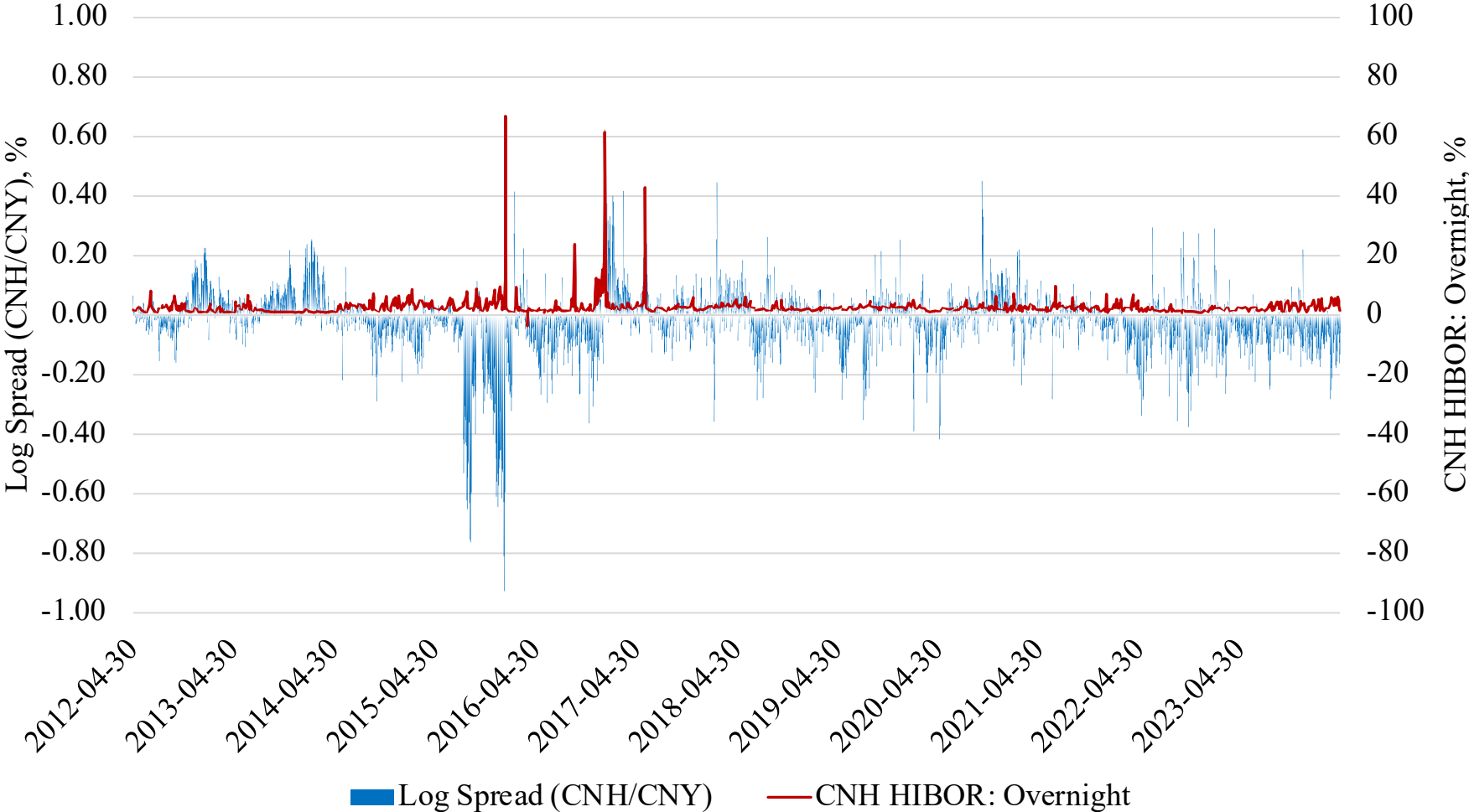
OFF-SHORE MONETARY POLICY

CNH Deposits in Hong Kong



OFF-SHORE MONETARY POLICY

CNH/CNY Spread and Borrowing Cost



❖ 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

