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In our MP Reports, we aim to provide a concise and timely analysis of Chinese monetary policy that makes it accessible for an international audience.

Expansionary for SMEs, contractionary for real estate

The current economic background

The outbreak of COVID-19 in 2020 was traumatic for the Chinese economy, but China has overcome this crisis and its economic development is again healthy and sound. Since the trough in early 2020 China has shown an exceptional recovery with 18.3% year over year GDP growth in the first quarter 2021, marking China's highest annual growth rate since it first began recording GDP growth in 1993. Quarter over quarter the Chinese economy grew by 0.6% showing that most of the recovery already occurred in 2020. China largely benefited from reopening economies around the globe, the total value of China's exports rose by 38.7% in the first quarter of 2021 compared to the same quarter of 2020.

Monetary policy in the first quarter of 2021: Overview

Policy Dashboard

Table 1 summarizes the key policy actions of the PBoC in the first quarter of 2021.



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Table 1: Policy Dashboard

Jan 6 th	PBoC and SAFE increased the macroprudential adjustment coefficient for domestic companies, increasing overseas loans to 0.5 from 0.3, allowing for easier funding of foreign subsidiaries by their Chinese parent company through direct loans.
Jan 8 th	PBoC and the Bank of Thailand renewed a bilateral currency swap agreement, with an amount of RMB 70 billion (THB370 billion), to facilitate trade and investment between both countries.

Jan 8 th	PBoC and SAFE lowered the macro-prudential adjustment parameter for cross-border financing of companies to 1 from 1.25 (Yinfa No. 5 [2021]), limiting foreign loans to Chinese firms.
Jan 11 st	The State Council issued the Decision of the State Council on “the Implementation of Unified Registration for Pledge of Movable Property and Rights” (Guofa [2020] No.18), which reduces contract uncertainty risks for the secured parties and thereby the costs of credit transactions.
Jan 27 th	PBoC and CBIRC formulated and improved regulations on convertible capital bonds to broaden the refinancing channels for small and medium-sized banks.
Jan 27 th	PBoC issued the “Measures for the Custody of Clients’ Reserves of Non-Banking Payment Institutions”, to strengthen the supervision of clients’ reserves and improve the protection of customer rights.
Jan 29 th	PBoC and MOF jointly release “Administrative Measures for Savings Treasury Bonds”, to clarify the related concepts such as responsibilities, powers, and prohibitions regarding the provision of related services by investors and standardize the distribution of quotas to purchase treasury bonds.
Feb 5 th	PBoC, CBIRC, CSRC, SAFE, HKMA, SFC and MAoM sign a <i>Memorandum of Understanding on the Launch of the Cross-Boundary Wealth Management Connect Pilot Scheme in the Greater Bay Area</i> , which deepens the financial cooperation among Guangdong, Hong Kong and Macao.
Mar 30 th	CBIRC, MOHURD and the General Administration Department of the PBC jointly issue the Notice on “Preventing the Illegal Flow of Business loans into the Real Estate Sector”, to combat exuberance in the housing market.

Remarks

1. Titles written in *italic* are official translations by the PBoC.
2. Abbreviations of government agencies and committees

PBoC	People’s Bank of China	SAFE	State Foreign Exchange Administration	CSRC	China Securities Regulatory Commission
HKMA	Hong Kong Monetary Authority	MOHURD	Ministry of Housing and Urban-Rural Development	SFC	Securities and Futures Commission of Hong Kong
MAoM	Monetary Authority of Macao	CBIRC	China Banking and Insurance Regulatory Commission	MOF	Ministry of Finance

Current monetary policy stance

Over the past years, China has been resorting to a package of monetary and fiscal policies to extend the financial channels of SMEs at home and abroad. Counting the measures from the PBoC's macroprudential policy toolkit – that we divide into macroprudentially motivated changes of the required reserve ratio (RRR), window guidance, housing policy and supervisory pressure (following Sun) - used in the first quarter of 2021, we see that the Chinese monetary policy stance has been slightly easing in that regard.

1. Macroprudential use of the required reserve ratio (RRR): The RRR has remained unchanged since April 2020 and remains at 11.5.
2. Window guidance: The PBoC has not engaged in window guidance during the past quarter.

3. Housing policy: While the lending rates remained unchanged since April 2020 at 3.85% for the one-year prime rate 4.65% for the five-year prime rate, the PBoC jointly with other regulators issued a *Notice on Preventing the Illegal Flow of Business Loans into the Real Estate Sector*, to limit credit supply in the real estate sector.
4. Supervisory pressure: In the first quarter of 2021, the PBoC, alone or jointly with other regulators, issued three laws and regulations, two of them easing credit supply for Chinese subsidiaries abroad and domestic small and medium sized banks, and a third one that limits cross border financing (see Table 3).

With a mix of slightly expansionary supervisory actions and a moderately restrictive housing policy, the policy stance is neutral.

Table 2: Recent changes of the required reserve ratio

Date	Large-scale Financial Institutions			Small-medium-scale Financial Institutions		
	Before	After	Adjustment	Before	After	Adjustment
2015.02.05	20.00%	19.50%	-0.50%	18.00%	17.50%	-0.50%
2015.04.20	19.50%	18.50%	-1.00%	17.50%	16.50%	-1.00%
2015.06.28	Part of banks RRR cut by 0.50%					
2015.09.06	18.50%	18.00%	-0.50%	16.50%	16.00%	-0.50%
2015.10.24	18.00%	17.50%	-0.50%	16.00%	15.50%	-0.50%
2016.03.01	17.50%	17.00%	-0.50%	15.50%	15.00%	-0.50%
2018.01.25	Part of banks RRR cut by 0.50-1.50%					
2018.04.25	17.00%	16.00%	-1.00%	15.00%	14.00%	-1.00%
2018.06.24	16.00%	15.50%	-0.50%	14.00%	13.50%	-0.50%
2018.10.07	15.50%	14.50%	-1.00%	13.50%	12.50%	-1.00%
2019.01.04	14.50%	13.50%	-1.00%	12.50%	11.50%	-1.00%
2019.06.06	1000 country level rural commercial banks RRR cut by 0.50-1.5%					
2019.09.06	13.50%	13.00%	-0.50%	11.50%	11.00%	-0.50%
2020.01.01	13.00%	12.50%	-0.50%	11.00%	10.50%	-0.50%
2020.03.13	12.50%	11.50%	-1.00%	10.50%	9.50%	-1.00%
2020.04.03	11.50	11.50	0.00%	8.50%	9.50%	-1.00%

Table 3: Supervisory pressure

Constrain	Jan 8 th	PBoC and the SAFE lower the macro-prudential adjustment parameter for cross-border financing of companies to 1 from 1.25
Ease	Jan 6 th	PBoC and SAFE PBoC and SAFE raised the macroprudential adjustment coefficient for domestic companies making overseas loans to 0.5 from 0.3
	Jan 27 th	PBoC and CBIRC formulated and improved the regulations on convertible capital bonds to Broaden Channels for Capital Replenishment by Small and Medium-sized Banks

Monthly Chinese Divisia Monetary data

Overall, the year-over-year growth rate for Divisia M4 in Feb 2021 was 11.13%, and 10.54% for Divisia M3. Growth of the narrower aggregates Divisia M1 and Divisia M2 was slightly lower, with year-over-year growth rates of 7.34% and 9.87%, respectively. The low rate of narrow aggregates was mostly due to the extremely low growth rate of cash of merely -3.89% in January and 4.24% in February. This might be driven by the replacement of traditional cash gifts for Chinese New Years by electronic alternatives. The spike in cash demand that was observed in previous years around the festival season was much less pronounced in 2021, indicating a change in the seasonal pattern. In December, the year-over-year growth rate still stood at 9.23% and we expect it to return to this order of magnitude next quarter.

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Figure 1: Chinese Divisia M3, M4 monthly year-over-year growth rate from Jan 2005 to Feb 2021

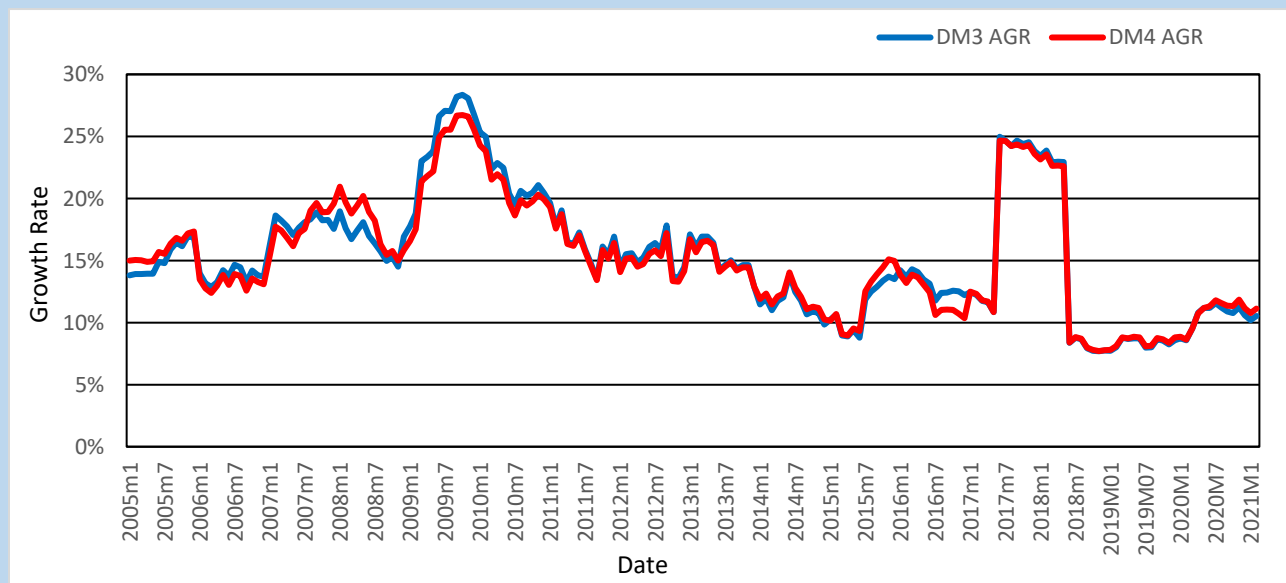


Figure 2: Chinese Narrow Divisia Monetary Aggregates M1, M2 monthly growth rate from Jan 2005 to Feb 2021

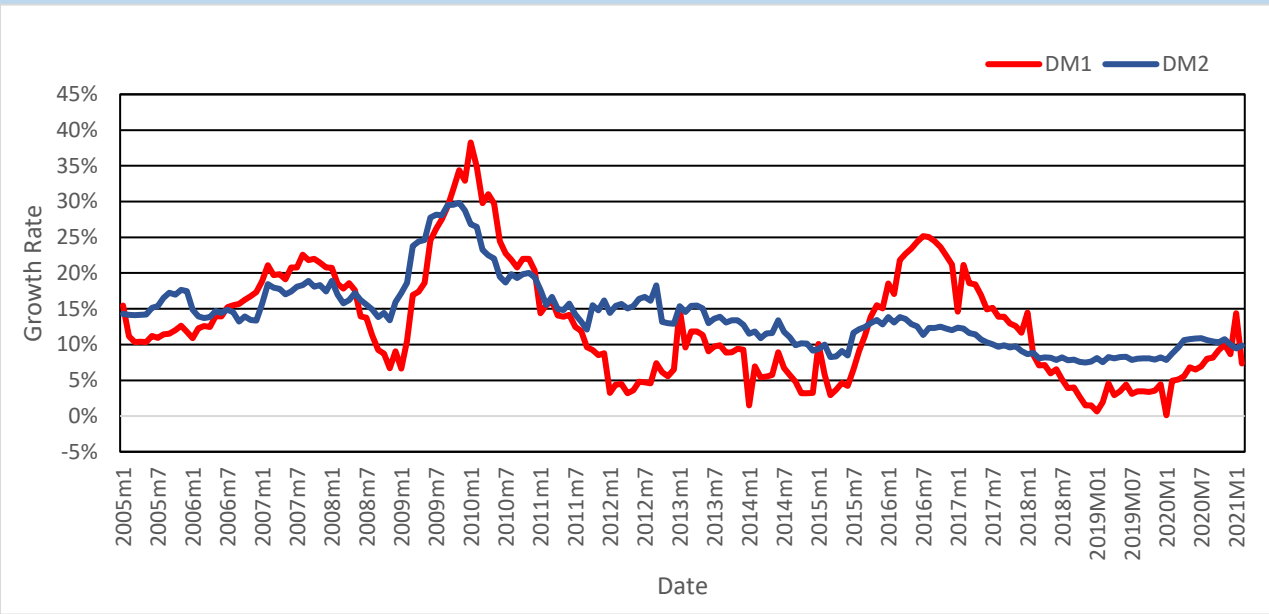


Figure 3: Chinese Divisia M0, M1, M2 Monetary Aggregates Level

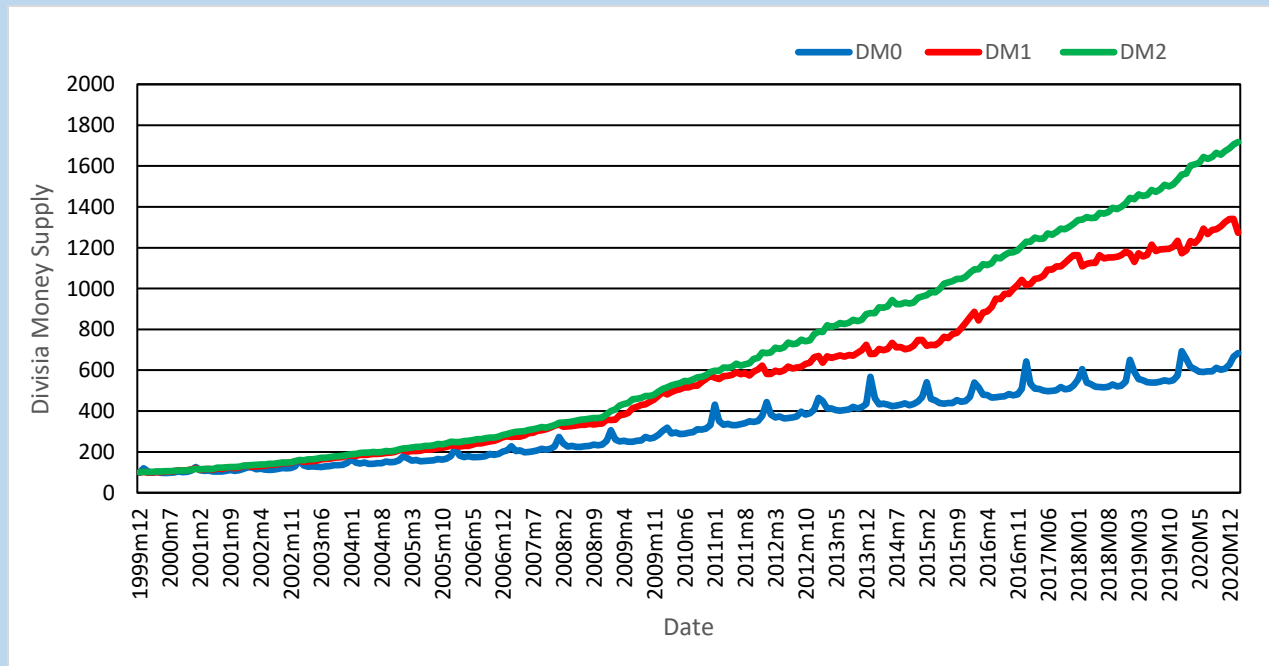


Figure 4: Chinese Divisa M3, M4 Aggregates Level

