

Makram EL-SHAGI, ZHENG Yizhuang (郑奕壮) and MA Yishuo (马怿硕)

Monetary policy supports the development of SMEs

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.

The current economic background

As China's vaccination rate continues to rise, the government accelerates the normalization of economic activity, leading to a return of consumer confidence and encouraging investment. In the second quarter, the pace of its recovery slowed considerably as the country contended with surging commodity prices and supply chain disruptions. The economy still has been growing at a rate of 1.3% over the first quarter, corresponding to 7.9% in comparison to the same period last year, compared to an 18.3% year-on-year increase China registered in the first quarter — though that record-breaking figure largely reflected how much the economy slumped in early 2020, as the coronavirus pandemic was taking hold.

One of the main reasons for the slowdown was the slowing growth in the service sector due to a Covid-19 outbreak in southern China and subsequent containment measures which curbed consumer and business activity. Exports remain the biggest driver of growth.

Monetary policy in the second quarter of 2021: Overview

Policy Dashboard

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



Makram EL-SHAGI



ZHENG Yizhuang



MA Yishuo

Table 1: Policy Dashboard

Apr 2 nd	PBoC and CBIRC jointly issued the draft version of <i>the Additional Regulatory Provisions for Systemically Important Banks (Trial)</i> , to strengthening macro-prudential regulations, encourage banks to reduce systemic risk, increase self-rescue capability and prevent “too big to fall” risk.
Apr 2 nd	PBoC released Announcement No.4 [2021] to optimize the trading and circulation mechanism of bonds.

- Apr 9th PBoC released interim regulations on filing-based management of financial holding companies' appointment of directors, supervisors, and other senior executives.
- Apr 20th PBoC issued measures for AML/CFT supervision of financial institutions, to improve anti-money laundering and counter-terrorist financing.
- Apr 27th PBoC, NDRC and CSRC issued the Green Bond Endorsed Projects Catalogue (2021 Edition), to increase investment in green assets
- May 31st PBoC decided to raise the foreign exchange required reserve ratio by 2 percentage points from 5 percent to 7 percent, which will be effective from June 15, 2021, to stabilize the RMB exchange rate.
- May 28th PBoC, MARA, MOF, CBIRC and CSRC issued the *Opinions on Extending Financial Support to the Development of New Types of Agribusinesses (Yinfa No.133 [2021].)*
- Jun 9th PBoC and CBIRC issued *Measures on Appraisals and Evaluations for Financial Institutions Serving Rural Revitalization*, to guide the allocation of more financial resources to key areas and weak links in rural economic and social development.
- Jun 25th PBoC, CBIRC, NDRC, and SAMR jointly launched measures to further reduce payment fees for micro and small businesses (MSBs)
- Jun 30th PBoC, CBIRC, CSRC, MOF, MARA and NARR jointly released *Opinions on financial support for consolidating achievements in the critical battle against poverty and comprehensively promoting rural revitalization.*

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	CBIRC	China Banking and Insurance Regulatory Commission	NDRC	National Development and Reform Commission
CSRC	China Securities Regulatory Commission	MARA	Ministry of Agriculture and Rural Affairs	MOF	Ministry of Finance
SAMR	State Administration for Market Regulation	NARR	National Administration for Rural Revitalization		

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 second 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 of last year and has remained at 11.5%.
2. Window guidance: There is no macroprudential regarding window guidance in the second quarter of 2021

3. Housing policy: The one-year prime rate (LPR) was kept at 3.85% and the five-year LPR remained at 4.65% since April 20, i.e., rates have been unchanged until now.
4. Supervisory pressure: In the second quarter of 2021, the PBoC, alone or jointly with other regulators, issued five laws and regulations, two of them easing credit supply for Chinese rural economic and domestic small and medium sized banks, two of them strengthening macro-prudential regulations and a fifth one that limits cross border financing (see Table 3).

While the PBoC tried to promote economic activity in sectors who are facing particular difficult times, this was flanked by rigorous macroprudential policy. For the aggregate economy, the policy is thus neutral rather than expansionary.

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	Apr 2 nd	PBoC and CBIRC jointly issued the draft version of <i>the Additional Regulatory Provisions for Systemically Important Banks (Trial)</i> , to strengthening macro-prudential regulations, encourage banks to reduce systemic risk, increase self-rescue capability and prevent “too big to fall” risk..
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Monthly Chinese Divisia Monetary data

Overall, the average monthly year-over-year growth rate for Divisia M4 from January 2020 to June 2021 was 15.22%, and the average monthly year-over-year growth rate for M3 was 15.13%. For Chinese Divisia M0, Divisia M1, and Divisia M2, the average monthly year-over-year growth rates are 9.45%, 13.38% and 14.63%, respectively. Over time, the growth rates of 2021 fluctuated above the average for 2021. We observe particularly higher Divisia M2 growth, which seems to be driven by a worldwide inflation expectation. This might be a response to match the strong demand for consumption after the economic recovery.

Makram EL-SHAGI is the director of the CFDS and Professor at Henan University. He has graduated from the University of Mannheim. He has been active in policy advice for many years, working as senior economist at the Halle Institute for Economic Research and consultant for the ECB.

ZHENG Yizhuang and MA Yishuo are doctoral students and researchers at the Center for Financial Development and Stability. Both are working on Chinese monetary policy.

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

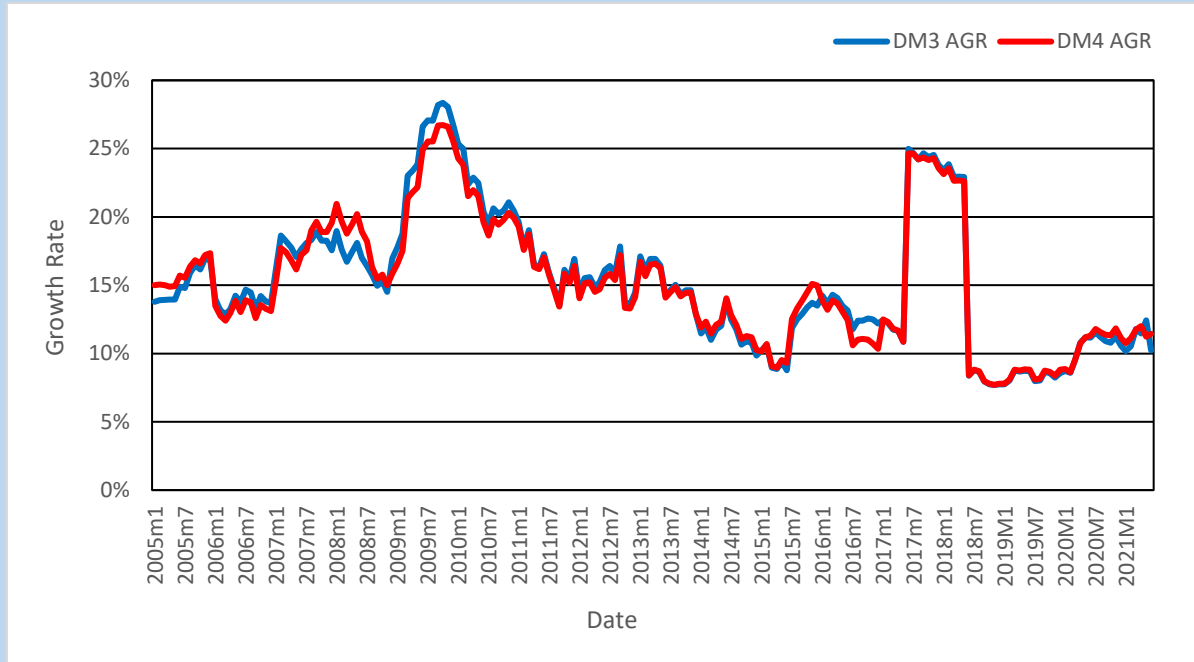


Figure 2: Chinese Narrow Divisia Monetary Aggregates M1, M2 monthly growth rate from Jan 2005 to Jun 2021

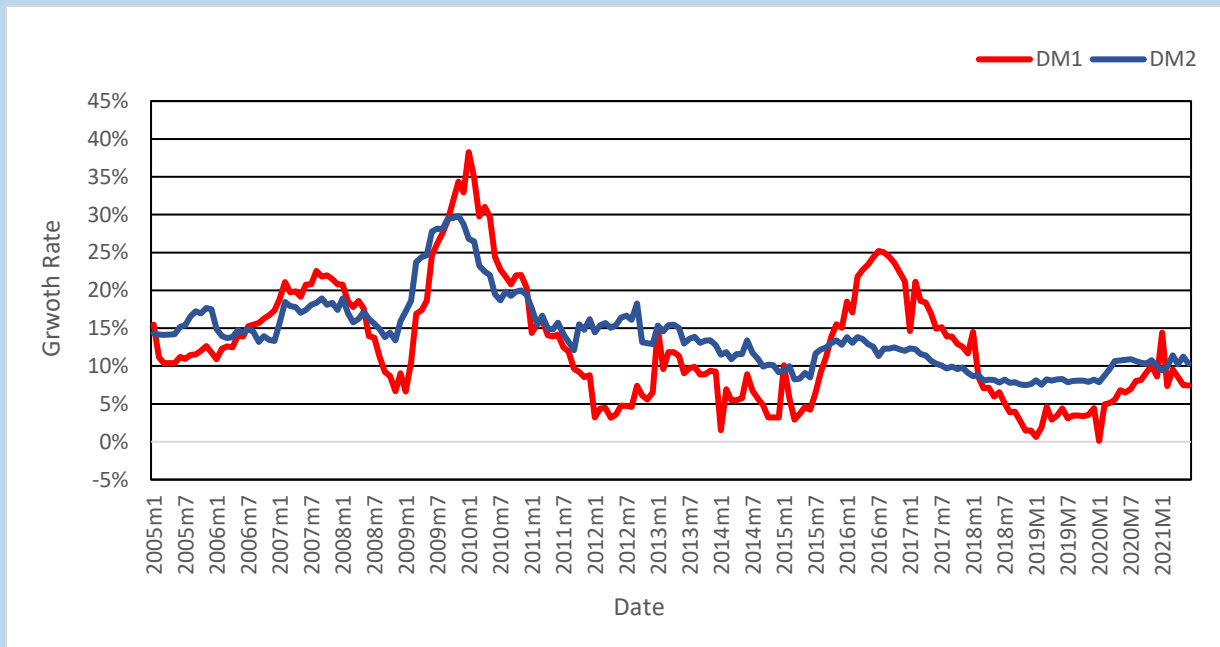


Figure 3: Chinese Divisia M0, M1, M2 Monetary Aggregates Level from Dec 1999 to Jun 2021

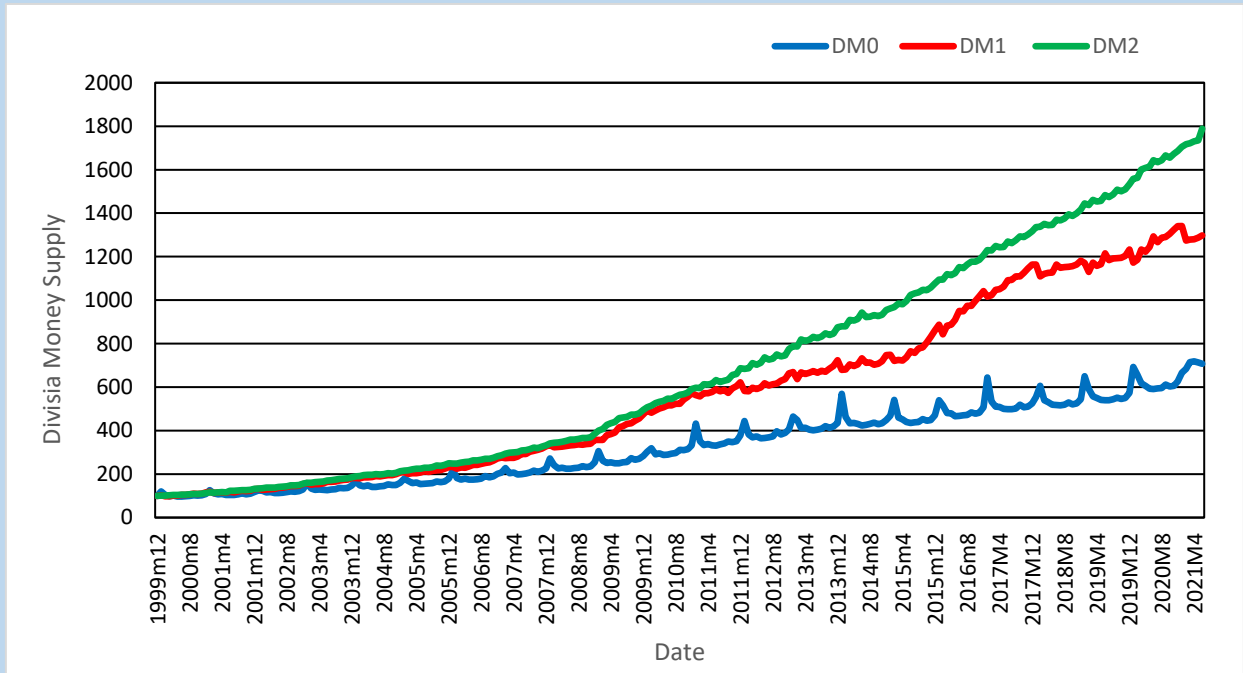


Figure 4: Chinese Divisia M3, M4 Monetary Aggregates Level from Dec 2001 to Jun 2021

