

PBC Spokesperson Answers Press Questions on Current Monetary and Credit Situations

Days ago, the PBC spokesperson answered press questions on current monetary and credit situations, liquidity in the banking system, credit to the real estate sector, and other hot topics.

Q: Recently, the PBC released the statistics for financial data and all-system financing aggregates in the first three quarters of this year. Is there anything noteworthy?

A: Since the start of this year, the PBC has followed the overall arrangements of the Central Economic Work Conference and the State Council for extending financial support to the real economy, adhered to the principle of seeking progress while maintaining stability, continued the sound monetary policy, strengthened macro-prudential regulation, made preemptive and fine tunings in a timely and appropriate way, and maintained proper growth of money and credit aggregates. The data shows the following characteristics:

First, in terms of financial aggregates, money and credit, and all-system financing aggregates increased at a relatively fast pace. At end-September 2013, broad money M2 was up 14.2 percent year on year, accelerating by 0.4 percentage points from the end of last year. All-system financing aggregates in the first nine months amounted to 13.96 trillion yuan, 2.24 trillion yuan more than that in the same period last year, among which new RMB loans posted 7.28 trillion yuan, up 557 billion yuan year on year.

Second, the credit structure became more optimized, reflecting the policy of differentiated treatment for different sectors. Financial support for small and micro-sized enterprises, the agricultural sector, rural areas, and farmers, and the hinterland region has been strengthened. At end-September, outstanding RMB loans to small and micro-sized enterprises grew 13.6 percent year on year, outpacing RMB loans to large and medium-sized enterprises by 2.2 percentage points and 3.4 percentage points respectively; outstanding RMB loans to the agricultural sector, rural areas, and farmers grew 18.6 percent year on year, outpacing new loans to all the industries by 4 percentage points. Credit line to sectors with excess capacity was under strict control, and new loans to these sectors grew at a lower pace. At end-September, outstanding medium and long-term loans to sectors with excess capacity were 2.04 trillion yuan, which represented an increase of 6.7 percent year on year and continuation of single-digit growth ever since July 2011.

The financial data shows that the monetary policy measures have achieved some results. Measures include stepping up parameter adjustments in the mechanism of dynamic adjustment of differentiated reserve requirement, expanding the applicable scope of central bank loan to the agricultural sector, increasing the central bank loan

and discounting facilities in a timely manner, fully liberalizing lending rate controls, and the adjustment of credit structure is in line with the requirement of macro-economic management policies. However, it is noteworthy that bank loans registered rapid growth during the recent period, and pressures on monetary and credit expansion were still large against the background of growing trade surplus and large foreign exchange inflow.

Q: Some media reported that, with the Mid-Autumn Festival and the National Day holiday coming before and after it respectively, the end of September was also the end of third quarter when the demand for cash was quite strong, and the banking system again encountered a “cash shortage” phenomenon. How is the liquidity situation in the banking system at the current juncture? What measures has the PBC taken in managing the overall liquidity?

A: The liquidity supply in China’s banking system is generally relatively abundant.

From an overall perspective, fundamentals of the economy are generally sound, and the economy has maintained relatively stable and fast growth. In particular, as export situation has improved in recent months and the trade surplus continued rapid growth, the economic performance points to a good momentum. On the international side, the Federal Reserve has delayed the exit of QE. On account of these factors, foreign exchange inflows increased significantly, and growth of liquidity in the banking system quickened somewhat. At end-September, broad money M2 grew 14.2 percent year on year, up 0.4 percentage point over the end of last year.

From the perspective of funding price on the interbank market, in September the weighted average interbank lending rate and bond repo rate were 3.47 percent and 3.49 percent respectively, at par with that of last month. And the difference between the daily peak interest rate and the average monthly rate was only 50 to 60 basis points, far below the average of about 200 percentage points shown at the end of quarters over recent years, indicating relatively stable market rates with much less volatilities. Nevertheless, it is noteworthy that, due to seasonal and temporary factors, measured increase of interest rate in the end of the quarter and the month is a normal market phenomenon.

Since the start of this year, the PBC, in line with the requirements of sound monetary policy and in view of development of liquidity situation in the system, has flexibly adjusted the direction and intensity of liquidity operation. By using the repo, standing lending facility, and other instruments, the PBC strengthened macro-prudential regulation, urged commercial banks to adjust the pace and structure of asset and liability expansion and improve the asset structure in a self-initiated manner, enhanced communication with media and the public, and guided the money market rates to move back steadily. We expect that in the next stage liquidity in the banking system will remain at a reasonable and appropriate level.

Q: Some media reported that several commercial banks have tightened mortgage lending. Has the mortgage loan policy been adjusted?

A: We have earnestly implemented the policy and overall arrangement of the CPC Central Committee and the State Council on regulation of the real estate market. In terms of monetary and credit policies, efforts were taken to continue the differentiated housing mortgage policy, meet the reasonable credit demand of first-time home-buyers, and step up credit support for ordinary commercial housing projects with modest floor areas and government-subsidized housing projects. This policy direction has not changed. During the first three quarters of the year, credit to the real estate sector shows the following characteristics:

First, real estate loans maintained rapid growth. At end-September, outstanding real estate loans issued by major financial institutions (including foreign-funded financial institutions) posted 14.17 trillion yuan, up 19 percent year on year, outpacing the growth of the total loans by 4.7 percentage points. In particular, home mortgage loans outstanding grew 20.9 percent year on year to 8.7 trillion yuan. In the first three quarters, new mortgage loans posted 1249.2 billion yuan on a cumulative basis, accounting for 17.2 percent of total new loans.

Second, new loans for welfare housing development continued to increase rapidly. At end-September, outstanding loans for welfare housing development were 686.3 billion yuan, up 31.3 percent year on year, outpacing loans for real estate development by 16.8 percentage points, and accounting for 26.9 percent in total loans outstanding of real estate development, up 22 percentage points from the end of 2009.

Third, priority was given to support the credit demand of first-time home-buyers. In the first three quarters, new loans for first-time home-buyers accounted for 76.5 percent of total new mortgage loans issued by commercial banks. In other words, more than three-quarters of housing mortgage loans are issued to first-time home buyers, helping depress investment demand.

As just mentioned, the current liquidity of the banking system is generally abundant. According to our survey, no commercial bank has issued any definite notice to halt mortgage lending. Nevertheless, since home mortgage loans registered rapid growth in the first three quarters in some banks, certain small and medium-sized banks have made adjustments to their loan structure since September. Loan approval and extension have been lengthened in some cities to varying extents.

In the next stage, we will closely monitor the development in the home mortgage loan market, strengthen coordination with relevant departments, encourage and guide financial institutions to further improve the housing loan service, proactively support affordable housing projects, ordinary commercial housing with modest floor areas and the credit demand of first-time home-buyers, so as to promote the sustained, stable and healthy development of the real estate market.

Q: As a further step in the market-based interest-rate reform, controls over RMB lending interest rates were removed as of July 20, 2013. What are the considerations in promoting market-based deposit rate reform?

A: In recent years, the market-based interest rate reform has proceeded steadily and made great progress. Interest rate liberalization has been achieved successively in the money market, bond market and the foreign-currency deposit and lending market. Against this background, the controls over RMB lending rates were removed as of July 20, 2013. For the time being, there remains a cap on RMB deposit rates. The market-based interest rate reform has greatly enhanced the role of market in interest rate formation, putting more reliance on the market mechanism in the allocation of financial resources. Judging from successful international experiences, liberalization of the deposit rates is the most critical and most risk-prone phase of market-based interest rate reform, and should be implemented in a step-by-step and orderly fashion, based on the readiness of various basic conditions.

In the next stage, the PBC will work with relevant departments to cultivate the various basic conditions, improve the market rate pricing self-regulatory mechanism, and improve the building of benchmark interest rate system in the financial market, so as to create favorable conditions for furthering the market-oriented interest rate reform. Meantime, we will further the reform by allowing the issuance of CDs in the interbank market. When the conditions are met, we will allow the issuance of CDs to enterprises and individuals, gradually expand the range of market-based pricing of liability products by financial institutions, and promote the market-based deposit rate reform in a progressive and orderly way.

Q: What is the monetary policy stance in the remainder of the year? And what are the PBC's priorities?

A: Since the beginning of this year, the balance of global recovery has changed somewhat. Advanced economies are gradually strengthening, while growth in emerging market economies has slowed. In recent months, the Chinese economy has strengthened and turned to the upside. The PMI and other leading indicators which reflect market expectations have showed an upward trend; industrial added value, electricity consumption, corporate profits and other data which reflect real economy performance have also continued to rise; and fiscal revenue growth has gradually picked up. All these factors are conducive to achieving the economic and social development targets set for this year.

In the next stage, we will continue to implement a sound monetary policy, strike a proper balance among preserving stable economic growth, adjusting the economic structure, promoting reform, and preventing risks, conduct fine-tuning and preemptive adjustments when necessary, and create a stable financial environment and monetary conditions for economic structural adjustments, transformation, and upgrading.

First, in light of the changing situations, a mix of monetary policy tools will be used in a flexible way to better manage liquidity in the banking system and guide the stable and reasonable growth of money, credit, and all-system financing aggregates.

Second, the allocation of financial resources will be further optimized. Financial institutions will be encouraged to properly manage their stock of credit assets, make good use of new loans, and consolidate financial resources to support the development of those key and vulnerable sectors such as small and micro-sized enterprises, the agricultural sector, rural areas and farmers, so as to better guide and support the economic transformation, upgrading and domestic demand.

Third, the reform will continue to strengthen the role of market mechanisms, to improve the monetary policy transmission mechanism, and to promote sustainable and sound economic growth.