

# Asia FI & FX Strategy Watch

## PBoC reiterates focus on effective credit expansion

### PBoC vows to maintain reasonable price levels

The PBoC recently released its 4Q23 monetary policy report (MPR). Compared with a quarter ago, the central bank strikes a slightly more positive tone on China's near-term economic outlook. Yet, policymakers also point out a number of lingering challenges, including weak confidence, slow private investment growth, as well as the imbalance between insufficient demand and overcapacity.

In the 4Q report, the central bank vows to “maintain prices at reasonable levels”. The PBoC acknowledges that the muted inflation pressure lately was a result of deficient demand, especially relative to a faster recovery of supply. The PBoC expects overall inflation to pick up mildly, helped by a lower base and continuing recovery in goods & services demand. The contraction in PPI is also expected to narrow gradually.

### Focus on effective credit expansion and targeted support

In line with the Central Economic Work Conference (CEWC) in Dec, the PBoC reiterates that monetary policy shall remain “flexible, appropriate, targeted, and effective” and vows to maintain “reasonably ample liquidity”. The central bank states that the growth of TSF and money supply shall match real GDP growth and the “targeted level of inflation”.

Consistent with the press conference in mid-Jan, the PBoC pledges to guide a reasonable and balanced pace of credit growth, and to provide more funding support to five targeted areas (technology, green economy, SMEs, senior care and digital economy). Compared with the 3Q report, the PBoC elaborates further on how to “reinvigorate the existing stock of credit” and promote effective use of funds, such as via (1) write-off of non-performing loans; (2) recycling the loans due and lending to market participants with higher efficiency instead; and (3) increasing the share of direct financing in TSF.

### Striking internal vs external balance; rate cuts still likely

In the policy outlook section, the PBoC highlights the objective of striking the internal vs external balance between interest rate and exchange rate. On the one hand, the PBoC pledges to use policy rates to guide market rates, implement the market-driven adjustment mechanism for deposit rate, and help stabilize/further reduce funding cost for the real economy. On the other hand, the central bank reiterates the stance of “maintaining RMB exchange rate stability at a reasonable level”, while also stating “allowing exchange rate to play the role of automatic stabilizer role in macroeconomic and BoP adjustments”. Nonetheless, “guarding against FX overshooting risk and preventing self-fulfilling one-way expectation” remains the bottom line.

With likely more deposit rate cuts this year, we see room for further LPR decline in the coming quarters. Given the recent rebound in USD, it remains to be seen whether the central bank will guide down the 1yr/5yr LPR on Feb 20.

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BoP – Balance of Payment

GDP – Gross domestic product

HK – Hong Kong

LPR – Loan prime rate

MLF – Medium-term lending facility

NCD – Negotiable certificates of deposits

OMO – Open market operation

PBoC – People’s Bank of China

SME- Small- and medium-sized enterprises

TSF – Total social financing

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## Steady progress in establishing bilateral swap lines

One special column of the MPR was dedicated to the developments and impacts of PBoC's bilateral swap lines:

Since global financial crisis in 2008, the PBoC started establishing currency swap agreements with other central banks. From 2022 onwards, the PBoC has upgraded the swap line with Hong Kong Monetary Authority (HKMA) to a standing facility, signed currency swap agreement with Saudi Arabia Monetary Authority, and renewed the agreement with some partnering central banks. Currently, there are 31 effective bilateral currency swap agreements, with an aggregate authorized amount of RMB4.16tn.

As of end-2023, the outstanding balance of RMB funding obtained through the swap line was RMB114.9bn – less 3% of the authorized amount. As a built-in safeguard mechanism, during the swap period, if bilateral exchange rate movement exceeds certain level, then the amount of swapped currencies would be adjusted based on the new exchange rate.

## Deepen financial collaboration between mainland and HK

Special column #4 focuses on the central bank's continued efforts in promoting financial collaboration between mainland and Hong Kong and supporting HK's role as a global financial center, in the areas of: 1) offshore RMB center, 2) mutual access schemes, 3) Greater Bay Area developments, 4) green and sustainable finance, and 5) Fintech.

On the mutual access, the report specifically mentions that about 70% of global investors' A-shares investment was made through Stock Connect, while more than half of foreigners' transactions of mainland bond was conducted through northbound Bond Connect. In Jan 2024, PBoC and HKMA announced new measures to deepen the financial collaboration, including the expansion of eligible collateral for the HKMA's RMB Liquidity Facility to include certain onshore RMB bonds invested through Bond Connect. Further, policymakers are planning to further open up bond repo business to foreign investors.

### Exhibit 1: Weighted average lending rates published by the PBoC

New mortgage rate dropped to 3.97% as of end-4Q 2023

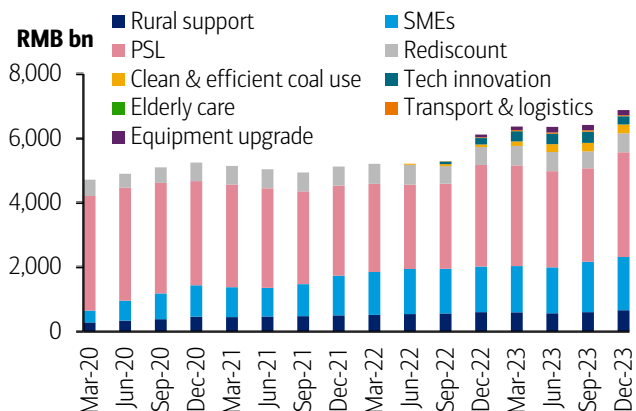


Source: CEIC, PBoC

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### Exhibit 2: PBoC's targeted lending tools

The total outstanding balance of targeted lending tools rose notably in 4Q23



Source: PBoC, CEIC

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