

## **Properly Adjust liquidity and Maintain the Stability of Money Market**

At the moment, performance of the economy and the financial sector are sound and the price situation is stable. In the first five months of this year, money, credit and all-system financing aggregates all grew rapidly. At the end of May, the ratio of excess reserves of financial institutions were 1.7 percent. As of June 21, the excess reserves of all financial institutions were about 1.5 trillion yuan. Generally speaking, excess reserves in the range of 600 to 700 billion yuan are sufficient to meet the demand for liquidity arising from normal payment and clearing transactions in the financial sector, while excess reserves in the volume of 1 trillion yuan is regarded as being abundant. Therefore, there is no shortage of liquidity at the current stage.

However, affected by various factors such as rapid loan growth, payment of annual corporate income tax before deadline, cash demand during the Dragon Boat Festival holiday, changes on foreign exchange market, payment of required reserves, and etc, interest rates have recently moved up and fluctuated on money market.

To maintain the stable operation of the money market, the PBC has provided liquidity support to financial institutions that are in compliance with the macro-prudential requirements. Banks with abundant liquidity have also lent money to other market participants, contributing to the stabilization of the market. As a result, the interest rates on the money market have fallen back and stabilized. On June 25, the overnight pledged repo rate was 5.83 percent, down 592 basic points from that on June 20. With the removal of seasonal and market sentiment factors, the fluctuation of interest rates and the stress in liquidity supply will be alleviated gradually.

Going forward, the PBC will implement the decisions adopted at the 13<sup>th</sup> Executive Meeting of the State Council in real earnest, continue to implement a sound monetary policy and let the sound monetary policy produce its effect. In the meantime, based on the liquidity situation on the market, a combination of tools will be adopted, including open market operation, central bank lending, central bank discounting, short-term liquidity operations (SLO), standing lending facility (SLF), and other innovative instruments, to timely adjust liquidity in the banking sector, contain abnormal and temporary fluctuations, stabilize market expectations and maintain the stability of money market in order to create a sound monetary environment for the normal functioning of the financial markets, the adjustment of the economic structure, as well as the transformation and upgrading of economic growth pattern.

The commercial banks are expected to step up management of liquidity and that of asset and liability. First, commercial banks should make more studies of the factors that affect liquidity in order to make correct judgement of the liquidity situation, respond to liquidity fluctuations calmly, avoid irrational behaviours, and keep their daily liquidity at a reasonable level. Large commercial banks are expected to play their due role in stabilizing the market. Unexpected, abnormal, and serious situations should be reported to the central bank promptly. When a financial institution has a temporary shortage of fund, the central bank will provide liquidity support as long as the financial institution has provided lending that meets the requirements of the country's industrial policy and the macro-prudential policy in support of the real economy, and the aggregate size and pace of its lending are sound; in the case that a financial institution encounters a problem in liquidity management, the central bank will take measures based on the actual circumstances to address the problem to maintain stability of the money market. Second, the commercial banks are expected to take into consideration liquidity, profitability and other targets, properly manage the overall size and maturity structure of assets and liability, the portfolio and disbursement pace of lending, negotiable instrument financing, and etc, prudently control the potential liquidity risks arising from overly rapid expansion of credit and other assets, and step up measures to prevent the maturity mismatch risks in inter-bank transactions. Moreover, in accordance with the principle of making good use of the new loans and properly managing the stock of credit assets, the commercial banks should adjust and optimize credit structure, and give more support to micro- and small-sized enterprises, the agricultural sector, the rural areas, farmers, advanced manufacturing sectors, strategic new industries, labour-intensive industries, the service sector, upgrading of traditional industries and consumption, and the going global efforts of enterprises; they need to strictly control lending to industries with excess capacity while refraining from rigidly applying a uniform standard to all the cases. Third, the market transaction behaviours will be better regulated and enforcement of trading discipline will be stronger in order to preserve good market order. The contributor panel banks of Shibor should submit rates rationally in accordance with the principle that guides the rate submitting behaviour and honor their obligations in striking deals based on their submitted rates. The primary dealers of the open market operations and members of the money market should play their due roles to maintain market order, quote rates to and trade with market participants on a truthful basis. Quoting false rates that will mislead market participants is prohibited. Any institution that is found to have quoted false rates will be dealt with strictly.