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Xinhua News Agency's Interview with a PBC Official On the Current Monetary and Credit Situation

Q: How do you review the moderation of M2 growth in June?

A: At end June, the growth of broad money M2 was 14 percent year on year, a deceleration of 1.8 percentage points from May, but still 0.2 percentage points and 0.4 percentage points higher than that at the end of 2012 and June 2012. This is a relatively high growth. A direct reason in the moderated growth in June is slow growth of deposits compared with June last year. With the adoption of financial regulation policies, the commercial banks, in accordance with the requirement of macro-prudential management, stepped up efforts in the last twenty days of June to adjust asset and liability structure, reduced the pace of lending which was quite excessive in the beginning of the month, and cut down on their trading on the inter-bank market, thus the growth of derivative deposits was compromised. Moreover, the fairly high base in June 2012 had an impact on the growth of money as well. In addition, the fiscal deposit registered a smaller decline compared with June 2012, contributing to the moderated growth of other deposits. Overall speaking, moderated growth of M2 in June is consistent with the anticipation of macro-economic management and the requirements of a sound monetary policy and more in line with the growth target of 13 percent set in the beginning of 2013. Going forward, the PBC will continue to implement a sound monetary policy, use a combination of quantitative and price based monetary policy instruments, improve the macro-prudential policy framework, properly adjust the liquidity in the banking system, and guide money, credit and all-system financing aggregates to grow in a stable and reasonable manner.

Q: How do you comment on the interest rate fluctuation on the money market in June?

A: In June, the money market interest rates fluctuated for a short period of time. The average inter-bank lending rate and repo rate rose to 6.58 percent and 6.82 percent respectively in June. There are many reasons behind the fluctuations, including the influence of changes on foreign exchange market as a result of the expected tapering of quantitative easing by the Federal Reserve, the seasonal factors such as cash supply around the Dragon Boat Festival holiday, payment of required reserve and corporate taxes, the missteps of financial institutions in liquidity risk control and asset and liability management, sentiment factors including market expectation changes caused by the noises of shorting China, and the impact of adoption of various regulatory policies within a short time-span. Toward the end of June, as the central bank adopted a series of measures to stabilize market interest rates, and with the gradual removal of seasonal and sentiment factors, the money market resumed its stable operation. As of July 12, the inter-bank lending rate and repo rate posted 3.32 percent and 3.29 percent respectively. In general, the liquidity in the banking system was adequate, with the

excess reserve ratio standing at 2.1 percent and the outstanding excess reserve posting 2 trillion yuan at the end of June. Generally speaking, the outstanding excess reserve at the volume of 1 trillion yuan is fairly sufficient. The fluctuation of money market interest rates that we saw in June is a temporary phenomenon and is unlikely to have a direct impact on the real economy. Reasonable movements of money market interest rates help enhance the leverage role of prices, encourage financial institutions to operate soundly, help optimize the allocation of financial resources, and guide the financial institutions to give stronger support to adjustment of the economic structure and the upgrading of the economy.

Q: What happened in the financing structure in the first half of 2013?

A: Preliminary statistics shows the all-system financing aggregate exceeded 10 trillion yuan in the first half of 2013. The composition of the financing aggregate has become more optimized with new RMB loans growing steadily, and shows the following characteristics. First, new RMB loans grew steadily, but their share in all-system financing aggregate hit a record low. New RMB loans amounted to 5.08 trillion yuan in the first half of 2013, representing an increase of 221.7 billion yuan year on year, and accounted for 50.0 percent in the all-system financing aggregate, down 12.4 percentage points year on year; second, net bond-financing of the corporate sector hit a record high, resulting in a continuous increase in the share of direct financing. In the first half of 2013, the total amount of debt and equity financing by non-financial companies in the domestic market accounted for 13.3 percent of the all-system financing aggregate, up 0.8 percentage points year on year. Third, the real sector received more financing via the off-balance sheet operations of financial institutions in the first half of 2013. In the first half of 2013, the total amount of undiscounted banker acceptances, entrusted loans and trust loans, which are direct financing instruments for the real sector, posted 2.86 trillion yuan represented an acceleration of 1.43 trillion yuan year on year. As reflected by the afore-mentioned developments, an increasingly diversified financing structure has further optimized allocation of financial resources, basically met the demand of the real sector, and laid out favorable conditions for fulfilling the task of maintaining stable growth, adjusting economic structure, and promoting reforms.

Q: What are main characteristics of the loan structure in the first half of 2013?

A: At end-June, outstanding RMB loans increased 14.2 percent year on year. In terms of sector break-down, new loans to the household sector increased rapidly. In terms of maturity structure, the growth of new medium and long-term loans has accelerated. The direction of new loans also shows positive changes. First, new medium and long-term loans to the industrial sectors rebounded. At end-June, new medium and long-term loans to the industrial sectors grew 7.4 percent year on year, up 0.2 and 1.1 percentage points from the end of the last month and the same period of the last year, respectively. Second, new medium and long-term loans to the infrastructure sector picked up. At end-June, new medium and long-term loans to the infrastructure sector grew 6.6 percent year on year, up 0.3 percentage points from the end of last month.

Third, growth of new medium and long-term loans to the services sector quickened. At end-June, new medium and long-term loans to the services sector grew 7.9 percent year on year, up 1.3 percentage points from the end of the last month.

Q: How did the financial sector support micro and small-sized enterprises in the recent period?

A: The PBC has been actively guiding financial institutions to extend more credits to micro and small-sized enterprises, and as a result these enterprises received more financial support. At end-June 2013, outstanding RMB loans to micro and small-sized enterprises posted 12.25 trillion yuan, accounting for 28.6 percent of total loans extended to the corporate sector, up 0.4 and 0.2 percentage points from the same period of the last year and the end of last month respectively. In the first half of 2013, new loans to micro and small-sized enterprises amounted to 1.03 trillion yuan, accounting for 42.6 percent of total new loans to the corporate sector in the same period, up 9.9 percentage points year on year. In particular, new loans to micro and small-sized enterprises amounted to 219.056 billion yuan in June, representing an acceleration of 81.407 billion yuan from May.