

## 《央行陷入货币困境》

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Expanding credit and rapidly cooling economy pose challenge to tactical approach to debt risks

China's fast expanding credit and the rapidly cooling economy have put the central bank in a dilemma over whether to ease its monetary stance to boost growth.

The government has shown great determination this year to control credit risks while allowing defaults in the bond market. Both industrial investment and fixed-asset investment slowed to multi-year lows in the first two months and dragged down economic growth.

Policymakers are unsure about how to balance policy to avoid a hard landing while curbing potential debt risk.

"They may undertake gentle policy fine-tuning like in 2013, instead of a 2009-style stimulus package, so growth will be slower but hopefully the worst can be avoided," said Yao Wei, chief economist in China at French bank Societe Generale SA.

Research by JPMorgan Chase and Co indicates the slowing economy in recent years has a close relationship with the normalization of monetary policy after the government aggressively loosened it during 2009 and 2010.

Because the country's monetary policy operations rely heavily on quantitative measures, the People's Bank of China - the nation's central bank - has managed credit growth by using reserve requirement ratios and open-market operations to control liquidity within the financial sector.

A signal was sent in Premier Li Keqiang's speech last week that the government is going to take measures to support growth, one of which will be "increasing the financial industry's support for the real economy and reducing financing costs".

Louis Kuijs, chief economist in China at Royal Bank of Scotland Group Plc, said: "It may imply that the government is likely going to be less forceful in reining in credit growth."

According to data from the central bank, repurchase rates have moved up gradually since March 12. The seven-day repo rate closed at 4.19 percent on March 31. The People's Bank of China conducted repo purchases totaling 72 billion yuan (\$11.61 billion) on Wednesday.