Chinese central bank moves to strengthen liquidity management

21/02/2016 21:12 by admin

Beijing: The efforts of China's central bank to manage market liquidity after the Lunar New Year holiday will help ensure smooth liquidity conditions, allowing financial markets to function without disruption, according to an industry report.

The People's Bank of China, China's central bank, on Friday pumped 163 billion yuan (about $25 billion) into the financial system in open market operations via medium-term lending facility (MLF), Xinhua reported.

The MLF is a liquidity tool the bank introduced in 2014 to help commercial and policy banks maintain liquidity by allowing them to borrow from the central bank by using securities as collateral.

The fresh funds were injected into 20 financial institutions, according to the PBOC. MLF worth 110 billion yuan had been due on the same day.

Among the new funds, 47.5 billion yuan is for three months, 62 billion yuan for six months, and 53.5 billion yuan for one year, at interest rates of 2.75 percent, 2.85 percent and three percent, respectively.

The bank lowered the six month rate from three percent to 2.85 percent, and that for one year from 3.25 percent to three percent. The three month rate remained unchanged.

Lowering MLF interest rates and showing a willingness to offer liquidity indicate the PBOC's intention to prevent interest rate spikes and keep the monetary stance relatively accommodative, said China International Capital Corporation (CICC) in a report.

The moves are also part of the reform to establish a market-based interest rate system, according to CICC.

CICC suggests a supportive monetary policy is needed as growth stabilisation becomes China's top priority.

- IANS