

## Reserve Requirement Ratios Reduction Alleviates Bond Market Risks

On 7 October 2018, the People's Bank of China (PBOC) announced a plan to reduce the Reserve Requirement Ratios (RRR) by 1.0% for large commercial banks, joint stock banks, city commercial banks, non-county rural commercial banks and foreign banks effective 15 October 2018. At the same time, the Medium-term Lending Facility (MFL) due on the same day would not be renewed. This RRR reduction would release RMB 1.2 trillion into the market, of which RMB 450 billion would be used to repay the MFL due on 15 October, and the remaining amount would be used as incremental funds.

This was the fourth RRR cut undertaken by the PBOC so far this year. In January 2018, the PBOC tactfully cut RRR for selected commercial banks that met the lending thresholds to micro-financing, which was conducive for the development of small enterprises. Likewise, in July 2018, the PBOC cut RRR by 0.5% to facilitate the “debt-to-equity” swap effort with a particular emphasis to support small enterprises. Similar to the April RRR cut, the PBOC reduced the RRR by a full percentage point, this time. While this RRR cut marked the second full percentage point reduction, this did not imply an established pattern of repeated full percent point reduction going forward. The magnitude and frequency of RRR reduction are dependent on the pace of economic growth, funding cost, expected rate of inflation, exchange rate and many other indicators.

For more details, please refer to the Chinese report:

《年内第四次降准利好实体经济融资，可有限缓解债市信用风险》

<http://www.lhcis.com/news/1518.html>

Source: 《年内第四次降准利好实体经济融资，可有限缓解债市信用风险》，United Credit Ratings Co., Ltd, and China Lianhe Credit Rating Co., Ltd. published on 11 October 2018.

Note: In case of any discrepancies between the English version and the Chinese version, the Chinese version shall prevail.

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