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China Economics | Asia Pacific

PBoC QE Isn't Going to Happen

Beijing's commentary on PBoC trading CGB is not an indication of QE. In our view, it's about improving the open market operational mechanism by shifting from using central bank notes, reverse repos and Lending Facilities (LFs) to increasingly using government bond trading to control financial conditions, a standard approach among global central banks. It is not buying government bonds in the primary market, therefore not an indication of QE / monetization of public debt (MMT). In fact, in the same speech, Beijing made hawkish comments that the deleveraging process requires a tighter grip on money and credit supply, which we believe indicates continued preference for austerity to prevent misallocations.

Fiscal austerity continues, keeping deflationary pressure persistent. In the last two decades, government bonds were not part of China's monetary operations because of 1) Beijing's need to sterilize forex inflows with RRR and liquidity withdrawal tools, and 2) a relatively less developed government bond market. Both factors have changed a lot over the years and therefore policymakers today are considering increasingly using government bonds as part of open market operation tools. It may help China to improve monetary policy transmission. However, we do not think it's a sign of PBoC QE to monetize a fiscal "bazooka". China's augmented fiscal stimulus remains limited (see [here](#)), keeping deflationary pressure persistent.

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